

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 2015

Content

| | Page |
|-----------------------------------|------|
| Independent Auditor's Report | 1-2 |
| Income statement | 4 |
| Statement of comprehensive income | 4 |
| Statement of financial position | 5-6 |
| Statement of changes in equity | 7 |
| Statement of cash flows | 8 |
| Notes to the financial statements | 9-63 |



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 2015, 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 63.

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 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Skopje,

04 March 2016

Grant Thornton DOO, Skopje



Suzana Stavrik
Director





Marjan Andonov
Certified auditor

GENERAL INFORMATION

Members of the National Bank of the Republic of Macedonia Council

Dimitar Bogov, Governor
Maja Kadievska-Vojnovik, Vice Governor
Fadilj Bajrami, Vice Governor
Anita Angelovska-Bezoska, Vice Governor
Liman Kurtisi
Saso Arsov (until 30 January 2015)
Aleksandar Stojkov
Metodij Hadzi Vaskov
Mihail Petkovski

Registered office

Bldv. Kuzman Josifovski Pitu 1
1000, Skopje

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***INCOME STATEMENT**

| | Note | 2015 | 2014 |
|---|-----------|------------------|------------------|
| Interest income | 5 | 251,245 | 202,914 |
| Interest expense | 6 | (1,102,917) | (1,181,506) |
| Net interest expense | | (851,672) | (978,592) |
| Fee income | 7 | 270,730 | 239,770 |
| Fee expense | 8 | (34,861) | (20,789) |
| Net fee income | | 235,869 | 218,981 |
| Net unrealized price and exchange rate differences | 9 | 2,474,591 | 3,890,067 |
| Net trading income | 10 | 322,111 | 614,400 |
| Dividend income | 11 | 7,503 | 6,451 |
| Other operating income | 12 | 604,947 | 506,149 |
| Personnel expenses | 13 | (401,830) | (393,840) |
| Depreciation and amortization charge | 27,28 | (73,379) | (75,490) |
| Other expenses | 14 | (178,099) | (175,733) |
| Provisions and write offs | 15 | 204,978 | (7,615) |
| Gain for the year, net | | 2,345,019 | 3,604,778 |

STATEMENT OF COMPREHENSIVE INCOME

| | 2015 | 2014 |
|--|------------------|------------------|
| Gain for the year from the Income statement, net | 2,345,019 | 3,604,778 |
| Other comprehensive income | | |
| - Items that will be reclassified subsequently to income statement | - | - |
| - Items that will not be reclassified subsequently to income statement | - | - |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | 2,345,019 | 3,604,778 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION**

| ASSETS | Note | As at 31 December | |
|--|-------------|--------------------------|--------------------|
| | | 2015 | 2014 |
| Foreign currencies | 16 | 385,096 | 97,502 |
| Foreign currency deposits | 17 | 17,190,700 | 16,679,824 |
| Foreign securities | 18 | 108,378,494 | 119,543,775 |
| Gold | 19 | 13,111,666 | 13,274,716 |
| Special Drawing Rights | 20 | 295,023 | 261,457 |
| Foreign assets | | 139,360,979 | 149,857,274 |
| Receivables from Government related to IMF | 21 | 5,125,971 | 13,844,700 |
| Government securities | 22 | 911,674 | 883,994 |
| Receivables from Government | | 6,037,645 | 14,728,694 |
| IMF Membership | 23 | 5,422,197 | 4,763,329 |
| Loans to banks | 24 | 15,912 | 15,912 |
| Other receivables | 25 | - | - |
| Receivables from banks | | 15,912 | 15,912 |
| Non - current assets or disposal groups held for sale | 26 | 113,431 | 113,431 |
| Property and equipment | 27 | 767,393 | 690,468 |
| Intangible assets | 28 | 26,449 | 39,340 |
| Coins from precious metals | 29 | 116,069 | 112,952 |
| Operating receivables | 30 | 28,308 | 32,206 |
| Other assets | 31 | 198,789 | 129,569 |
| Total assets | | 152,087,172 | 170,483,175 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION (continued)**

| LIABILITIES AND EQUITY | Note | As at 31 December | |
|---|-------------|--------------------------|--------------------|
| | | 2015 | 2014 |
| Currency in circulation | 32 | 31,950,962 | 28,081,269 |
| Bank deposits | 33 | 25,427,842 | 30,867,892 |
| Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD | 34 | 13,280,757 | 12,603,486 |
| National Bank bills issued | 35 | 25,045,631 | 25,467,840 |
| Government MKD deposits | 36 | 11,344,247 | 10,165,072 |
| Government foreign currency deposits | 37 | 17,392,904 | 28,883,207 |
| Government deposits | | 28,737,151 | 39,048,279 |
| Restricted deposits | 38 | 386,317 | 932,544 |
| Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government | 39a | 5,125,971 | 4,806,581 |
| Borrowing from IMF - on behalf and for the account of the Government | 39b | - | 9,038,119 |
| Payables based on membership and deposits | 39c | 5,422,197 | 4,763,329 |
| Payables to IMF | 39 | 10,548,168 | 18,608,029 |
| Other deposits | 40 | 171,064 | 641,093 |
| Other payables | 41 | 247,942 | 231,368 |
| Provisions | 42 | - | 1,730 |
| Other liabilities | 43 | 657,494 | 645,823 |
| Other liabilities | | 905,436 | 878,921 |
| Total liabilities | | 136,453,328 | 157,129,353 |
| Capital | | 1,289,789 | 1,289,789 |
| General reserves | | 1,298,029 | 1,247,079 |
| Special reserves | | 270,544 | - |
| Other reserves | | 12,775,482 | 10,816,954 |
| Total equity and reserves | 44 | 15,633,844 | 13,353,822 |
| Total liabilities and equity | | 152,087,172 | 170,483,175 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial Statements for the year ended 31 December 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

| | Note | Capital | General reserves | Special reserves* | Other Reserves** | Art works revaluation | Accumulated gain | Total capital and reserves |
|---|------|------------------|------------------|-------------------|-------------------|-----------------------|------------------|----------------------------|
| As at 1 January 2014 | | 1,289,789 | 1,122,898 | - | 7,387,800 | 1,777 | - | 9,802,264 |
| Gain for the year | | - | - | - | - | - | 3,604,778 | 3,604,778 |
| Total comprehensive income for 2014 | | - | - | - | - | - | 3,604,778 | 3,604,778 |
| 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) |
| As at 31 December 2014 | | 1,289,789 | 1,247,079 | - | 10,815,177 | 1,777 | - | 13,353,822 |
| Gain for the year | | - | - | - | - | - | 2,345,019 | 2,345,019 |
| Total comprehensive income for 2015 | | - | - | - | - | - | 2,345,019 | 2,345,019 |
| Net unrealized negative price and exchange rate differences of gold | 44 | - | - | - | (387,693) | - | 387,693 | - |
| Net unrealized positive foreign exchange differences | 44 | - | - | - | 2,862,284 | - | (2,862,284) | - |
| Net unrealized positive price differences of securities | 44 | - | - | - | 30,253 | - | (30,253) | - |
| Net unrealized negative price differences of securities covered from other reserves | 44 | - | - | - | (2,579) | - | 2,579 | - |
| Realized price and exchange rate differences of gold | 44 | - | - | - | (506,800) | - | 506,800 | - |
| Realized price differences of securities | 44 | - | - | - | (36,937) | - | 36,937 | - |
| Transfer to general reserves | 44 | - | 50,950 | - | - | - | (50,950) | - |
| Transfer to the special reserves | | - | - | 270,544 | - | - | (270,544) | - |
| Transfer to the Budget of the Republic of Macedonia | | - | - | - | - | - | (64,997) | (64,997) |
| As at 31 December 2015 | | 1,289,789 | 1,298,029 | 270,544 | 12,773,705 | 1,777 | - | 15,633,844 |

*Defined as special reserves according to the Law on the National Bank of Republic of Macedonia

**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 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF CASH FLOWS**

| | Note | 2015 | 2014 |
|---|-----------|-------------------|--------------------|
| Cash flow from operating activities | | | |
| Gain for the year | | 2,345,019 | 3,604,778 |
| Adjusted for: | | | |
| Interest income | 5 | (251,245) | (202,914) |
| Interest expense | 6 | 1,102,917 | 1,181,506 |
| Net unrealized price and exchange rate differences of gold | | 170,395 | (1,523,220) |
| Net trading income | | (1,137,848) | (998,946) |
| Impairment, net | | (204,263) | 5,885 |
| (Release) /Charge of provisions | | (715) | 1,730 |
| Depreciation and amortization charge | 27,28 | 73,379 | 75,490 |
| Cash flows used from operating gain, before changes in operating assets and liabilities | | 2,097,639 | 2,144,309 |
| Term deposits over 90 days | | 6,694,305 | (10,076,886) |
| Gold | | (17,885) | (27,121) |
| Foreign securities | | 12,303,129 | (18,387,172) |
| Receivables from Government | | 9,038,119 | 5,300,125 |
| Other assets | | 136,914 | (7,875) |
| Currency in circulation | | 3,869,693 | 3,035,865 |
| Bank deposits | | (5,440,001) | 11,421,686 |
| Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD | | 677,271 | 350,009 |
| Government deposits, including restricted and other deposits | | (11,324,096) | 8,815,817 |
| Provisions for court cases | | (1,015) | - |
| Borrowing from IMF- on behalf and for the account of Government | | (9,038,119) | (5,300,125) |
| Other liabilities | | (36,752) | 5,700 |
| Interest received | | 238,324 | 171,467 |
| Interest paid | | (1,127,356) | (1,201,272) |
| Net cash flows from/used in operating activities | | 8,070,170 | (3,755,473) |
| Acquisition of property, equipment and intangible assets | | (138,503) | (53,217) |
| Net cash flows used in investing activities | | (138,503) | (53,217) |
| National Bank bills, net | | (407,890) | 4,592 |
| Net cash flows used in / from financing activities | | (407,890) | 4,592 |
| Net increase/ decrease in cash and cash equivalents | | 7,523,777 | (3,804,098) |
| Cash and cash equivalents at the beginning of the year | | 6,958,978 | 10,763,076 |
| Cash and cash equivalents at the end of the year | 45 | 14,482,755 | 6,958,978 |

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 operations 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, No. 43/14 dated 4 March 2014, No. 153/15 dated 4 September 2015 and No. 6/16 dated 15 January 2016. The National Bank is a legal entity with administrative, financial and governing independence, 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 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 can be neither transferred nor be subject to 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

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. In the case of a special reserve account, distributable earnings shall be distributed so that up to 70% shall be transferred to the special reserves account until reaching the amount set by the National Bank Council to cover costs for previously planned purposes, and 70% of the remainder shall be allocated to general reserves until reaching the level of core capital or 15% after reaching the level of core capital. If the National Bank realizes negative distributable earnings, these earnings will be first charged to the general reserve account, and then covered by the capital. If the value of the National Bank 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 National Bank Council is the management body of the National Bank.

The total number of employees as of 31 December 2015 is 437 (as of 31 December 2014: 436).

The financial statements were adopted by the National Bank of the Republic of Macedonia Council on 25 February 2016 and signed by the chairperson of the National Bank Council on its behalf:



Dimitar Bogov
Dimitar Bogov,

Chairperson of the National Bank Council

Vesna Filipovska
Vesna Filipovska,

Finance, Accounting and Controlling Manager

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 revised IFRSs (Annual improvements of IFRS's 2012 and 2013 and amendments to IAS 19 – Defined benefit plans: Employee contributions) became effective in 2015. These improvements and amendments did not have material impact on the National Bank's financial statements, thus no changes are made to the accounting policies during 2015.

2 Summary of significant accounting policies (continued)

A Basis of preparation of financial statements (continued)

b) New accounting standards, amendments and interpretations of the existing standards which are not yet effective and have not been adopted early 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) - representing the completion of the 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. The 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 the 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 2018. The National Bank has yet to assess the impact of this new standard on the financial statements.

IFRS 16 "Leases" was issued in January 2016, replacing IAS 17 "Leases" and related interpretations. The new standard contains guidance for recognition, measurement and disclosure of the lease contracts for both contractual parties. IFRS 16 is effective for reporting periods beginning on or after 1 January 2019. The 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 2015 | 31 December 2014 |
|------------------------------|-------------------------|-------------------------|
| | MKD | MKD |
| USD | 56.3744 | 50.5604 |
| EUR | 61.5947 | 61.4814 |
| SDR | 78.1197 | 73.2522 |

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 the transactions 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 and receivables, (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 and receivables, (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 and loss statement 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 and 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 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 markets. 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 investments

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 financial assets

Available-for-sale financial assets 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. 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 is based on the discounted expected 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 realized 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 and uncollectibility of financial assets (Continued)***Assets carried at amortized cost (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 statement 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 statement 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 is calculated using the straight-line method based on their estimated useful lives, as follows:

| | 2015 | 2014 |
|--------------------|---------------|---------------|
| Buildings | 5 to 50 years | 5 to 50 years |
| Equipment | 3 to 10 years | 3 to 10 years |
| Transport vehicles | 5 to 6 years | 5 to 6 years |
| Office furniture | 5 to 10 years | 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 at each reporting date for impairment whether events or changes in circumstances indicate that the carrying amount may not be appropriate. If such evidences exist, the recoverable amount of the assets should be assessed. 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 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 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 2015.

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.

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 commercial banks that hold the foreign reserves and other financial assets or the issuers of the instruments in which the foreign reserves are placed, as well as the risk of increasing the spread of yields between the safest government securities and other financial assets.

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 placements for liquidity management, 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 presented 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 credit 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 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

3 Financial risk management (Continued)

A Credit risk (Continued)

The size and the exposure of the National Bank to credit risk is presented in the statement of financial position and notes to the statement of financial position that describe financial assets.

The table below presents 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 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****A Credit risk (Continued)**

| ASSETS | 2015 | 2014 |
|--|--------------------|--------------------|
| Foreign currency deposits | | |
| - Current accounts | 7,856,886 | 4,249,966 |
| - Term deposits | 9,333,814 | 12,429,858 |
| Foreign securities | 108,378,494 | 119,543,775 |
| Gold deposits | 13,087,503 | 13,250,250 |
| Special Drawing Rights | 295,023 | 261,457 |
| Foreign assets | 138,951,720 | 149,735,306 |
| Receivables from Government related to IMF | 5,125,971 | 13,844,700 |
| Government securities | 911,674 | 883,994 |
| Receivables from Government | 6,037,645 | 14,728,694 |
| Receivables from banks | 15,912 | 15,912 |
| Operating receivables | 28,308 | 32,206 |
| As at 31 December | 145,033,585 | 164,512,118 |

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 2015, 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 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

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

| Credit rating | Gold deposits | Current accounts | Term deposits | Foreign securities | Special Drawing Rights | Receivables from Government | Receivables from banks | Operating receivables | Total |
|------------------|-------------------|------------------|------------------|--------------------|------------------------|-----------------------------|------------------------|-----------------------|--------------------|
| AAA | 1,068,855 | 5,484,048 | 3,100,771 | 34,349,727 | - | - | - | - | 44,003,401 |
| AA+ | - | 1,195,729 | - | 36,036,303 | - | - | - | - | 37,232,032 |
| AA | - | 1,090,885 | - | 19,809,570 | - | - | - | - | 20,900,455 |
| AA- | 4,195,536 | 15,369 | 201,653 | 4,605,345 | - | - | - | - | 9,017,903 |
| A | 1,195,233 | 35,090 | 3,791,201 | - | - | - | - | - | 5,021,524 |
| A+ | 6,617,662 | 2,331 | 2,240,189 | 6,080,911 | - | - | - | - | 14,941,093 |
| A- | - | - | - | 2,889,220 | - | - | - | - | 2,889,220 |
| II ¹ | 10,217 | 683 | - | 41,989 | 295,023 | - | - | - | 347,912 |
| BB ⁻² | - | - | - | - | - | 6,037,645 | - | - | 6,037,645 |
| BBB | - | 3,370 | - | - | - | - | - | - | 3,370 |
| BBB+ | - | 29,381 | - | 3,080,794 | - | - | - | - | 3,110,175 |
| BBB- | - | - | - | 1,484,635 | - | - | - | - | 1,484,635 |
| Unrated | - | - | - | - | - | - | 15,912 | 28,308 | 44,220 |
| Total | 13,087,503 | 7,856,886 | 9,333,814 | 108,378,494 | 295,023 | 6,037,645 | 15,912 | 28,308 | 145,033,585 |

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 2014, based on Standard & Poor's ratings or their equivalent:

| Credit rating | Gold deposits | Current accounts | Term 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 ¹ | 10,345 | 687 | - | 39,373 | 261,457 | - | - | - | 311,862 |
| BB ⁻² | - | - | - | - | - | 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 |
| Total | 13,250,250 | 4,249,966 | 12,429,858 | 119,543,775 | 261,457 | 14,728,694 | 15,912 | 32,206 | 164,512,118 |

Financial assets which are individually impaired are presented in other receivables (Note 25) and operating receivables (Note 30).

¹ International Institutions

² Rating of the Republic of Macedonia

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(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 2015. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

| | EU Countries | Non-EU member countries | Republic of Macedonia | Other OECD countries | Total |
|--------------------------------|-------------------------|--|----------------------------------|-------------------------------------|--------------------|
| Gold deposits | 8,288,195 | 10,217 | - | 4,789,091 | 13,087,503 |
| Current accounts | 6,599,955 | 33,715 | - | 1,223,216 | 7,856,886 |
| Term deposits | 6,031,390 | 3,100,771 | - | 201,653 | 9,333,814 |
| Foreign securities | 68,805,182 | 867,967 | - | 38,705,345 | 108,378,494 |
| Special Drawing Rights | - | - | - | 295,023 | 295,023 |
| Receivables from Government | - | - | 6,037,645 | - | 6,037,645 |
| Receivables from banks | - | - | 15,912 | - | 15,912 |
| Operating receivables | - | - | 28,308 | - | 28,308 |
| 31 December 2015 | 89,724,722 | 4,012,670 | 6,081,865 | 45,214,328 | 145,033,585 |
| 31 December 2014 | 123,520,543 | 4,559,427 | 14,776,812 | 21,655,336 | 164,512,118 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(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 VAR³. 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 2015, 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 3,064,495 thousands (Euro 49,752,570), or 2.2% of the foreign reserves. The VAR originating from the change in the foreign exchange rate (includes change in the price of gold) amounts to MKD 2,999,546 thousands (Euro 48,698,112), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 64,949 thousands (Euro 1,054,458).

| | 31 December 2015 | 31 December 2014 |
|--------------------|-------------------------|-------------------------|
| Currency risk | 2,999,546 | 1,245,799 |
| Interest rate risk | 64,949 | 31,757 |
| Total VAR | 3,064,495 | 1,277,556 |

³ 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 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 2015 and 31 December 2014, analyzed by currency.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****C Foreign exchange risk (Continued)****As at 31 December 2015:**

| ASSETS | EUR | USD | SDR | Other | MKD | Total |
|--|-------------------|-------------------|-------------------|-------------------|---------------------|--------------------|
| Foreign assets | 58,295,987 | 69,117,449 | 337,012 | 11,610,531 | - | 139,360,979 |
| Receivables from Government | - | - | 5,125,971 | - | 911,674 | 6,037,645 |
| IMF Membership Receivables from banks | - | - | 5,422,197 | - | - | 5,422,197 |
| Operating receivables and other assets | - | - | - | - | 15,912 | 15,912 |
| | 609 | 52 | 428 | 11,441 | 16,398 | 28,928 |
| Total assets | 58,296,596 | 69,117,501 | 10,885,608 | 11,621,972 | 943,984 | 150,865,661 |
| LIABILITIES | | | | | | |
| Currency in circulation | - | - | - | - | 31,950,962 | 31,950,962 |
| Bank deposits Reserve requirements | - | - | - | - | 25,427,842 | 25,427,842 |
| National Bank Bills issued | 13,259,751 | - | - | - | 21,006 | 13,280,757 |
| Government deposits | - | - | - | - | 25,045,631 | 25,045,631 |
| Restricted deposits | 17,338,007 | 7,838 | - | 47,059 | 11,344,247 | 28,737,151 |
| Payables to IMF | 304,468 | 81,454 | - | 395 | - | 386,317 |
| Other deposits | - | - | 10,548,168 | - | - | 10,548,168 |
| Other liabilities | - | - | - | - | 171,064 | 171,064 |
| | 441,725 | 31,065 | 428 | 46,665 | 275,524 | 795,407 |
| Total liabilities | 31,343,951 | 120,357 | 10,548,596 | 94,119 | 94,236,276 | 136,343,299 |
| Net financial position | 26,952,645 | 68,997,144 | 337,012 | 11,527,853 | (93,292,292) | 14,522,362 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****C Foreign exchange risk (Continued)****As at 31 December 2014:**

| ASSETS | EUR | USD | SDR | Other | MKD | Total |
|--|-------------------|-------------------|-------------------|-------------------|---------------------|--------------------|
| Foreign assets | 93,985,920 | 43,891,053 | 300,830 | 11,679,471 | - | 149,857,274 |
| Receivables from Government | - | - | 13,844,700 | - | 883,994 | 14,728,694 |
| IMF Membership Receivables from banks | - | - | 4,763,329 | - | - | 4,763,329 |
| Operating receivables and other assets | - | - | - | - | 15,912 | 15,912 |
| | 9,074 | 13 | 402 | 10,326 | 21,791 | 41,606 |
| Total assets | 93,994,994 | 43,891,066 | 18,909,261 | 11,689,797 | 921,697 | 169,406,815 |
| LIABILITIES | | | | | | |
| Currency in circulation | - | - | - | - | 28,081,269 | 28,081,269 |
| Bank deposits Reserve requirements | - | - | - | - | 30,867,892 | 30,867,892 |
| National Bank Bills issued | 12,580,753 | - | - | - | 22,733 | 12,603,486 |
| Government deposits | - | - | - | - | 25,467,840 | 25,467,840 |
| | 28,814,694 | 15,053 | - | 53,461 | 10,165,071 | 39,048,279 |
| Restricted deposits | 849,662 | 82,877 | - | 5 | - | 932,544 |
| Payables to IMF | - | - | 18,608,029 | - | - | 18,608,029 |
| Other deposits | - | - | - | - | 641,093 | 641,093 |
| Other liabilities | 391,616 | 26,592 | 402 | 37,592 | 314,193 | 770,395 |
| Total liabilities | 42,636,725 | 124,522 | 18,608,431 | 91,058 | 95,560,091 | 157,020,827 |
| Net financial position | 51,358,269 | 43,766,544 | 300,830 | 11,598,739 | (94,638,394) | 12,385,988 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(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 2015 and 31 December 2014 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.

As at 31 December 2015:

| | Interest-bearing items | | | | | Non-interest bearing items | Total |
|--|-----------------------------------|------------------|--------------------|------------------|--------------|----------------------------|--------------------|
| | Up to 1 month or at variable rate | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | | |
| ASSETS | | | | | | | |
| Foreign assets | 20,229,359 | 4,396,954 | 108,614,384 | 3,743,810 | - | 2,376,472 | 139,360,979 |
| Receivables from Government | - | - | - | 911,674 | - | 5,125,971 | 6,037,645 |
| IMF Membership | - | - | - | - | - | 5,422,197 | 5,422,197 |
| Receivables from banks | - | - | - | 15,912 | - | - | 15,912 |
| Operating receivables and other assets | - | - | - | - | - | 28,928 | 28,928 |
| Total assets | 20,229,359 | 4,396,954 | 108,614,384 | 4,671,396 | - | 12,953,568 | 150,865,661 |
| LIABILITIES | | | | | | | |
| Currency in circulation | - | - | - | - | - | 31,950,962 | 31,950,962 |
| Bank deposits | 8,921,000 | - | - | - | - | 16,506,842 | 25,427,842 |
| Reserve requirements | - | - | - | - | - | 13,280,757 | 13,280,757 |
| National Bank Bills issued | 25,011,786 | - | - | - | - | 33,845 | 25,045,631 |
| Government deposits | 26,033,864 | - | - | - | - | 2,703,287 | 28,737,151 |
| Restricted deposits | - | - | - | - | - | 386,317 | 386,317 |
| Payables to IMF | - | - | - | - | - | 10,548,168 | 10,548,168 |
| Other deposits | 136,120 | - | - | - | - | 34,944 | 171,064 |
| Other liabilities | - | - | - | - | - | 795,407 | 795,407 |
| Total liabilities | 60,102,770 | - | - | - | - | 76,240,529 | 136,343,299 |
| Total interest rate risk | (39,873,411) | 4,396,954 | 108,614,384 | 4,671,396 | - | (63,286,961) | 14,522,362 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****D Interest rate risk (Continued)****As at 31 December 2014:**

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

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 outflows of the National Bank for 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 2015
(Amounts expressed in thousands of MKD unless otherwise stated)
3 Financial risk management (Continued)
E Liquidity risk (Continued)

| 31 December 2015 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|--------------------------|--------------------------|-------------------------------|-------------------------|-------------------------|--------------------|
| LIABILITIES | | | | | | |
| Currency in circulation | 31,950,962 | - | - | - | - | 31,950,962 |
| Bank deposits | 9,446,165 | - | 15,981,677 | - | - | 25,427,842 |
| Reserve requirements | - | - | 13,280,757 | - | - | 13,280,757 |
| National Bank Bills issued | 25,045,631 | - | - | - | - | 25,045,631 |
| Government deposits | 28,737,151 | - | - | - | - | 28,737,151 |
| Restricted deposits | 83,765 | - | 85,924 | 216,628 | - | 386,317 |
| Payables to IMF | 10,548,168 | - | - | - | - | 10,548,168 |
| Other deposits | 171,064 | - | - | - | - | 171,064 |
| Other liabilities | 703,038 | 64,997 | 27,372 | - | - | 795,407 |
| Total liabilities (contractual maturity dates) | 106,685,944 | 64,997 | 29,375,730 | 216,628 | - | 136,343,299 |
| Assets held for managing liquidity risk (expected maturity dates) | 120,620,793 | 6,846,170 | 18,685,313 | 4,671,396 | 41,989 | 150,865,661 |

| 31 December 2014 | Up to 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|--------------------------|--------------------------|-------------------------------|-------------------------|-------------------------|--------------------|
| LIABILITIES | | | | | | |
| Currency in circulation | 28,081,269 | - | - | - | - | 28,081,269 |
| Bank deposits | 13,345,589 | - | 17,522,303 | - | - | 30,867,892 |
| Reserve requirements | - | - | 12,603,486 | - | - | 12,603,486 |
| National Bank Bills issued | 25,467,840 | - | - | - | - | 25,467,840 |
| Government deposits | 39,048,279 | - | - | - | - | 39,048,279 |
| Restricted deposits | 672,376 | - | 260,168 | - | - | 932,544 |
| Payables to IMF | 9,588,852 | 1,803,835 | 5,411,507 | 1,803,835 | - | 18,608,029 |
| Other deposits | 641,093 | - | - | - | - | 641,093 |
| Other liabilities | 691,420 | 53,220 | 25,755 | - | - | 770,395 |
| Total liabilities (contractual maturity dates) | 117,536,718 | 1,857,055 | 35,823,219 | 1,803,835 | - | 157,020,827 |
| Assets held for managing liquidity risk (expected maturity dates) | 109,575,693 | 11,327,971 | 25,255,412 | 22,308,460 | 939,279 | 169,406,815 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(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 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Financial assets | | | | |
| <i>Loans and receivables</i> | | | | |
| Foreign currencies | 385,096 | 97,502 | 385,096 | 97,502 |
| Foreign currencies deposits | 17,190,700 | 16,679,824 | 17,190,700 | 16,679,824 |
| Special Drawing Rights | 295,023 | 261,457 | 295,023 | 261,457 |
| Receivable from | | | | |
| Government related to IMF | 5,125,971 | 13,844,700 | 5,125,971 | 13,844,700 |
| IMF Membership | 5,422,197 | 4,763,329 | 5,422,197 | 4,763,329 |
| Receivables from banks | 15,912 | 15,912 | 15,912 | 15,912 |
| Operating receivables and other assets | 28,928 | 41,606 | 28,928 | 41,606 |
| | 28,463,827 | 35,704,330 | 28,463,827 | 35,704,330 |
| <i>Securities held to maturity</i> | | | | |
| Foreign debt securities | 21,515,244 | 30,360,416 | 21,555,211 | 30,478,893 |
| Government securities | 911,674 | 883,994 | 911,674 | 883,994 |
| | 22,426,918 | 31,244,410 | 22,466,885 | 31,362,887 |
| <i>Securities available for sale</i> | | | | |
| Foreign equity securities | 41,989 | 39,373 | 41,989 | 39,373 |
| | 41,989 | 39,373 | 41,989 | 39,373 |
| Financial liabilities | | | | |
| <i>Carried at amortized cost</i> | | | | |
| Currency in circulation | 31,950,962 | 28,081,269 | 31,950,962 | 28,081,269 |
| Bank deposits | 25,427,842 | 30,867,892 | 25,427,842 | 30,867,892 |
| Reserve requirement of banks and saving houses | 13,280,757 | 12,603,486 | 13,280,757 | 12,603,486 |
| National Bank bills issued | 25,045,631 | 25,467,840 | 25,045,631 | 25,467,840 |
| Government MKD deposits | 11,344,247 | 10,165,072 | 11,344,247 | 10,165,072 |
| Government foreign currency deposits | 17,392,904 | 28,883,207 | 17,392,904 | 28,883,207 |
| Payables to IMF | 10,548,168 | 18,608,029 | 10,548,168 | 18,608,029 |
| Other and restricted deposits | 557,381 | 1,573,637 | 557,381 | 1,573,637 |
| Other liabilities | 795,407 | 770,395 | 795,407 | 770,395 |
| | 136,343,299 | 157,020,827 | 136,343,299 | 157,020,827 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

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, IMF Membership 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, available-for-sale securities include Bank for International Settlement (BIS) shares with a value of MKD 41,989 thousand (2014: MKD 39,373 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. These bonds are not listed, and there are no other 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 2015***(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

| 31 December 2015 | | | | |
|-------------------------------|-------------------|----------------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Foreign debt securities | 86,821,261 | - | - | 86,821,261 |
| Gold | 13,111,666 | - | - | 13,111,666 |
| Total financial assets | 99,932,927 | - | - | 99,932,927 |

| 31 December 2014 | | | | |
|-------------------------------|--------------------|----------------|----------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Foreign debt securities | 89,143,986 | - | - | 89,143,986 |
| Gold | 13,274,716 | - | - | 13,274,716 |
| Total financial assets | 102,418,702 | - | - | 102,418,702 |

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 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***5 Interest income**

| | Loans granted | Deposits | Gold deposits | Held to maturity securities | Other income | Total 2015 | Total 2014 |
|-----------------------|---------------|---------------|---------------|-----------------------------|--------------|----------------|----------------|
| Government | - | - | - | 27,680 | 795 | 28,475 | 28,365 |
| Domestic banks | 1,123 | - | - | - | 229 | 1,352 | 1,558 |
| Foreign entities | 11,645 | 17,082 | 40,445 | 152,246 | - | 221,418 | 172,970 |
| Other | - | - | - | - | - | - | 21 |
| Total for 2015 | 12,768 | 17,082 | 40,445 | 179,926 | 1,024 | 251,245 | 202,914 |
| Total for 2014 | 15,896 | 10,814 | 32,355 | 142,280 | 1,569 | 202,914 | |

6 Interest expense

| | Loans received | Deposits received | National Bank bills issued | Total 2015 | Total 2014 |
|---|----------------|-------------------|----------------------------|------------------|------------------|
| Government | - | 211,517 | - | 211,517 | 242,288 |
| Domestic banks and other financial institutions | - | 57,827 | 831,626 | 889,453 | 932,344 |
| Foreign entities | 1,947 | - | - | 1,947 | 6,874 |
| Total for 2015 | 1,947 | 269,344 | 831,626 | 1,102,917 | 1,181,506 |
| Total for 2014 | 4,077 | 339,544 | 837,885 | 1,181,506 | |

7 Fee income

| | 2015 | 2014 |
|---|----------------|----------------|
| Fees from providing cash to banks | 68,851 | 55,898 |
| Fees from domestic banks for maintaining account based on debt turnover on an account | 119,559 | 106,034 |
| Fees based on settlement of payments (RTGS) ⁴ | 41,030 | 41,327 |
| Fees from foreign exchange operations | 21,772 | 19,331 |
| Fees from sale of bills of exchange | 877 | 1,197 |
| Other fees | 18,641 | 15,983 |
| Total | 270,730 | 239,770 |

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.

⁴ Real time gross settlement

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015**

(Amounts expressed in thousands of MKD unless otherwise stated)

7 Fee income (Continued)

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

| | 2015 | 2014 |
|-----------------------|---------------|---------------|
| Fees to foreign banks | 34,861 | 20,789 |
| Total | 34,861 | 20,789 |

Fees paid to foreign banks refer to maintenance of services for the National Bank's accounts, transactions performed with the National Bank deposits and other foreign exchange transactions, and depend on the tariffs charged by 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 for the RAMP program for managing foreign assets and expenses paid to the foreign banks and custodians for securities maintenance.

9 Net unrealized price and exchange rate differences

| | 2015 | 2014 |
|---|------------------|------------------|
| Unrealized positive exchange rate differences | 12,189,713 | 6,634,968 |
| Unrealized negative exchange rate differences | (9,327,429) | (4,199,401) |
| Unrealized positive price and exchange rate differences from gold | 13,461,508 | 11,879,099 |
| Unrealized negative price and exchange rate differences from gold | (13,849,201) | (10,424,599) |
| Total | 2,474,591 | 3,890,067 |

10 Net trading income

| | 2015 | 2014 |
|---|----------------|----------------|
| Realized gains from trading securities | 47,322 | 34,901 |
| Realized losses from trading securities | (506,372) | (457,463) |
| Interest income from trading securities | 1,754,574 | 1,855,706 |
| Unrealized positive price differences from trading securities | 30,253 | 65,322 |
| Unrealized negative price differences from trading securities | (1,003,666) | (884,066) |
| Total | 322,111 | 614,400 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

10 Net trading income (Continued)

The net income realized as part of the RAMP⁵ program with the World bank in the amount of MKD 16,822 thousands, is included in the net trading income for 2015 (2014: MKD 7,638 thousands).

11 Dividend income

| | 2015 | 2014 |
|---------------------------------------|--------------|--------------|
| Dividend income on investments in BIS | 7,503 | 6,451 |
| Total | 7,503 | 6,451 |

12 Other operating income

| | 2015 | 2014 |
|--|----------------|----------------|
| Realized positive exchange rate and price differences, net | 579,823 | 468,175 |
| Royalty income from collector coins | 3,673 | 4,730 |
| Revenue from sale of collector coins | 1,835 | 1,793 |
| Income from sale of jubilee coins | 56 | 780 |
| Other income | 19,560 | 30,671 |
| Total | 604,947 | 506,149 |

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

| | 2015 | 2014 |
|---|----------------|----------------|
| Wages and personal income tax | 279,752 | 279,230 |
| Pension cost – defined contribution plans | 69,105 | 68,593 |
| Mandatory contributions | 34,553 | 34,297 |
| Other personnel expenses | 18,420 | 11,720 |
| Total | 401,830 | 393,840 |

In 2015, the remuneration of the key management of the National Bank was MKD 13,973 thousands (2014: MKD 12,962 thousands), included in "Personnel expenses" above.

⁵ Reserve Advisory Management Program

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***14 Other expenses**

| | 2015 | 2014 |
|--|----------------|----------------|
| Costs of production of banknotes and coins | 59,677 | 49,844 |
| Services | 63,416 | 70,432 |
| Material expenses | 29,857 | 30,531 |
| Other administrative expenses | 20,950 | 20,271 |
| Collector coins expenses | 2,937 | 2,379 |
| Other expenses | 1,262 | 2,276 |
| Total | 178,099 | 175,733 |

The costs of banknote and coin manufacture mainly relate to imported banknotes and materials purchased for minting coins. Banknotes are printed 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

| | Note | 2015 | 2014 |
|--|-------------|------------------|--------------|
| Release of impairment on loans and placements | 25 | (192,395) | - |
| Released impairment loss for other receivables | 30 | (10,508) | (201) |
| (Release) / Charge of provisions related to lawsuits with legal entities and individuals | 42 | (715) | 1,730 |
| (Released) /Charged impairment for interest income | 30 | (2,450) | 912 |
| Charged impairment on noncurrent assets held for sale | 26 | - | 5,170 |
| Charge of impairment loss on intangible assets | 28 | 1,090 | - |
| Other charged impairments | 30 | - | 4 |
| Total | | (204,978) | 7,615 |

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 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***17 Foreign currency deposits**

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Foreign currency sight deposits | 7,855,991 | 4,249,725 |
| Foreign assets placed at World Bank - RAMP | 895 | 241 |
| Foreign currency term deposits | 5,744,097 | 2,350,053 |
| Foreign currency term deposits placed at World Bank-RAMP | 201,653 | - |
| Included in the cash and cash equivalents (Note 45) | 13,802,636 | 6,600,019 |
| Term deposits over 90 days | 3,388,064 | 10,079,805 |
| Total | 17,190,700 | 16,679,824 |

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

| Interest rate type | 31 December 2015 | 31 December 2014 |
|----------------------------------|---------------------------------|---------------------------------|
| - Overnight deposits in USD | 0.1% | 0.04% |
| - Overnight deposits in USD-RAMP | 0.18% | - |
| - Euro overnight deposits | -0.19% | -0.004% |
| - Term deposits in USD | 0.27% | 0.12% |
| - Time deposits in EUR | 0.08% | 0.08% |

Foreign currency deposits by type of entity

| | 2015 | 2014 |
|--------------------------------------|-------------------|-------------------|
| Central banks | 7,760,304 | 4,099,303 |
| Foreign commercial banks | 9,429,713 | 12,579,834 |
| International financial institutions | 683 | 687 |
| Total | 17,190,700 | 16,679,824 |

Foreign currency deposits by geographic location

| | 2015 | 2014 |
|--------------|-------------------|-------------------|
| Europe | 15,773,313 | 14,593,521 |
| the Americas | 1,406,349 | 2,076,008 |
| Other | 11,038 | 10,295 |
| Total | 17,190,700 | 16,679,824 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(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.

| | 2015 | 2014 |
|--|--------------------|--------------------|
| Trading securities | 86,821,261 | 89,143,986 |
| Foreign debt securities | 77,577,745 | 79,914,928 |
| Foreign debt securities - RAMP | 9,243,516 | 9,229,058 |
| Securities held to maturity | 21,515,244 | 30,360,416 |
| Foreign debt securities held to maturity | 21,515,244 | 30,360,416 |
| Securities available for sale | 41,989 | 39,373 |
| Foreign unquoted equity securities | 41,989 | 39,373 |
| Total | 108,378,494 | 119,543,775 |
| Current | 104,592,696 | 98,999,777 |
| Non-current | 3,785,798 | 20,543,998 |

The trading securities portfolio contains high quality debt securities. The investments in trading securities are marked to market daily and bear fixed and variable coupon interest at a rate ranging between 0.125% and 8.75% p.a. (2014: from 0.25% to 8% p.a.). Foreign trading securities include accrued interest of MKD 608,890 thousand (2014: MKD 904,849 thousand).

In June 2014, the National Bank became part of the RAMP program, with the main objective - management of the part of the foreign reserves portfolio by the World Bank. Investments in debt securities held for trading which are part of the RAMP program bear fixed and variable coupon interest with rate ranging between 0.074% and 5% p.a. (2014: between 0.05% and 4% p.a.). These debt securities held for trading as part of the RAMP program include accrued interest in the amount of MKD 32,444 thousands (2014: MKD 93,172 thousands).

Securities intended to be held to maturity bear fixed income with interest at a rate ranging between 0.5% and 5.5% p.a. (2014: from 0.25% to 5.5% p.a.). Foreign securities held to maturity include accrued interest of MKD 197,904 thousand (2014: MKD 263,393 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 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***19 Gold**

| | 2015 | 2014 |
|---------------------------------|-------------------|-------------------|
| Sight gold deposits | 1,079,071 | 1,075,170 |
| Term gold deposits | 12,008,432 | 12,175,080 |
| Gold in the National Bank vault | 24,163 | 24,466 |
| Total | 13,111,666 | 13,274,716 |
| Current | 13,111,666 | 13,274,716 |

As of 31 December 2015, the National Bank total gold reserves were 218,850.7544 ounces (2014: 218,655.923 ounces) at a fair value of US Dollar 1,062.25 (MKD 59,884) per ounce (2014: US Dollar 1,199.25 or MKD 60,635 per ounce). Interest rates on term gold deposits in 2015 ranged between 0.07% and 0.605% p.a. for gold deposits based on the price of gold in US Dollar (2014: interest rate between 0.10% and 0.47% p.a.). As of 31 December 2015, term gold deposits include accrued interest of MKD 6,071 thousand (2014: MKD 16,611 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 2015, the basic rate ranged from 0.05% to 0.55% p.a. (2014: 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

| | 2015 | 2014 |
|---|------------------|-------------------|
| Receivable related to general and special net cumulative allocation | 4,471,430 | 4,192,823 |
| Receivable related to SDR allocation | 654,541 | 613,758 |
| Receivables from the Government – Precautionary Credit Line | - | 9,038,119 |
| Total | 5,125,971 | 13,844,700 |
| Current | 5,125,971 | 12,040,865 |
| Non-current | - | 1,803,835 |

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 the IMF (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 (Note 39a).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(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 the IMF and relate to drawdowns from the Precautionary Credit Line in March 2011. In February 2015, the Ministry of Finance had made early repayment of the Precautionary Credit Line (Note 39b).

22 Government securities

| | 2015 | 2014 |
|------------------------------------|----------------|----------------|
| Securities held to maturity | | |
| Bond for selective credits | 911,674 | 883,994 |
| Total | 911,674 | 883,994 |
| Non-current | 911,674 | 883,994 |

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 5,408,482 thousand at the end of 2015, the account no. 1 amounts to MKD 13,555 thousand and account no. 2 is valued at MKD 160 thousand. (2014: MKD 4,751,281 thousand, MKD 11,908 thousand and MKD 140 thousand respectively for the three positions, 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

| | 2015 | 2014 |
|--|---------------|---------------|
| Long-term loans from the conversion of the selective credits from 1996 | 15,912 | 15,912 |
| Total | 15,912 | 15,912 |
| Non-current | 15,912 | 15,912 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(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

| | 2015 | 2014 |
|--|----------------|------------------|
| Receivables from bank under bankruptcy | 756,268 | 1,009,960 |
| Due auction deposits | 8,268 | 8,268 |
| Total | 764,536 | 1,018,228 |
| Impairment | (764,536) | (1,018,228) |
| Total | - | - |

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 from 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 the period from 2010 to 2013, the National Bank collected part of the receivable in the amount of MKD 24,609 thousand, from the bankruptcy estate of one debtor of the domestic bank in bankruptcy. In 2015, the National Bank collected part of the receivable in amount of MKD 192,395 thousand, and obtained assets (part of building and part of equipment) in the amount of MKD 61,297 thousands (Note 31).

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 the amount of MKD 1,000 thousand 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 2015, the balance of this asset amounts MKD 113,431 thousand (2014: MKD 113,431 thousand).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***26 Non-current assets held for sale and disposal group (Continued)**

The fair value of non-current 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 (note 15).

27 Property and equipment

| | 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 |
|---|--------------------|-----------------------------------|---------------|-------------------------|---------------------------|------------------------------------|---|----------------|
| On 1 January 2014 | | | | | | | | |
| 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) |
| On 1 January 2014, net carrying amount | 637,436 | 115,554 | 64,219 | - | 14,197 | 831,406 | 16,643 | 848,049 |
| 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) |
| On 31 December 2014 | 491,015 | 104,184 | 64,219 | 327 | 14,727 | 674,472 | 15,996 | 690,468 |
| On 31 December 2014 | | | | | | | | |
| 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) |
| Net carrying amount | 491,015 | 104,184 | 64,219 | 327 | 14,727 | 674,472 | 15,996 | 690,468 |

In January 2014, the National Bank Council made a decision to sell property with net carrying value of MKD 118,601 thousands. This asset is reclassified as non-current asset held for sale and disposal group (Note 26).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(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 |
|---|--------------------|-----------------------------------|---------------|-------------------------|---------------------------|------------------------------------|---|----------------|
| On 1 January 2015 | | | | | | | | |
| 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) |
| On 1 January 2015, net carrying amount | 491,015 | 104,184 | 64,219 | 327 | 14,727 | 674,472 | 15,996 | 690,468 |
| Additions | | | | | | | | |
| - Cost | 1,120 | 10,655 | - | 379 | 123,282 | 135,436 | 65 | 135,501 |
| - Accumulated depreciation | - | (101) | - | - | - | (101) | (65) | (166) |
| Disposals and write-offs: | | | | | | | | |
| - Cost | - | (19,039) | - | - | - | (19,039) | - | (19,039) |
| - Accumulated depreciation | - | 18,993 | - | - | - | 18,993 | - | 18,993 |
| Transfers | | | | | | | | |
| - Cost | 49 | 87 | - | 51 | (100) | 87 | (87) | - |
| - Accumulated depreciation | - | (87) | - | - | - | (87) | 87 | - |
| Depreciation for the year | (28,172) | (29,546) | - | - | - | (57,718) | (646) | (58,364) |
| On 31 December 2015 | 464,012 | 85,146 | 64,219 | 757 | 137,909 | 752,043 | 15,350 | 767,393 |
| On 31 December 2015 | | | | | | | | |
| Cost | 806,162 | 519,285 | 64,219 | 757 | 137,909 | 1,528,332 | 34,129 | 1,562,461 |
| Accumulated depreciation | (342,150) | (434,139) | - | - | - | (776,289) | (18,779) | (795,068) |
| Net carrying amount | 464,012 | 85,146 | 64,219 | 757 | 137,909 | 752,043 | 15,350 | 767,393 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(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.

As at 31 of December 2015 and 2014, the National Bank has no pledged property and equipment.

28 Intangible assets

| | 2015 | 2014 |
|--|---------------|---------------|
| At 1 January | | |
| Cost | 209,556 | 181,083 |
| Investment in progress | 6,578 | 6,578 |
| Accumulated amortization | (176,794) | (164,964) |
| Net carrying amount | 39,340 | 22,697 |
| Additions | | |
| -Cost | 5,740 | 32,636 |
| -Accumulated amortization | (2,593) | - |
| Amortization charge | (15,015) | (15,993) |
| Investments in progress | 67 | - |
| Impairment of investments in progress- intangible assets | (1,090) | - |
| Transfers from property and equipment | | |
| - cost | - | 15,798 |
| - accumulated amortization | - | (15,798) |
| Disposals (write- offs) | | |
| - cost | (19,974) | (19,961) |
| - accumulated amortization | 19,974 | 19,961 |
| At 31 December | 26,449 | 39,340 |
| At 31 December | | |
| Cost | 195,322 | 209,556 |
| Investments in progress | 5,555 | 6,578 |
| Accumulated amortization | (174,428) | (176,794) |
| Net carrying amount | 26,449 | 39,340 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(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 to the country. As at 31 December 2015, the National Bank held a total of 6,838 gold coins and 27 silver coins (2014: 6,841 gold coins and 29 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 2015, the National Bank held a stock of 671 pieces of collector coins (2014: 36 pieces).

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:

| | 2015 | 2014 |
|---|---------------|---------------|
| Fees | 26,596 | 27,078 |
| Receivables for maintenance of premises | 1,712 | 5,022 |
| Tax receivables and contributions | - | 106 |
| Other receivables | 405,355 | 418,310 |
| Impairment of other receivables | (405,355) | (418,310) |
| Total | 28,308 | 32,206 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***30 Operating receivables (Continued)**

The movements in impairment of other receivables are as follows:

| | 2015 | 2014 |
|---|----------------|----------------|
| Balance as at 1 January | 418,310 | 418,006 |
| Release of impairment of operating receivables (Note 15) | (10,508) | (201) |
| (Release)/Increase of impairment of interest income (Note 15) | (2,450) | 912 |
| Other impairment (Note 15) | - | 4 |
| Increase/Write offs of doubtful receivables | 3 | (411) |
| Balance as at 31 December | 405,355 | 418,310 |

31 Other assets

| | 2015 | 2014 |
|---|----------------|----------------|
| Office and other materials | 60,722 | 43,285 |
| Prepaid expenses for printing banknotes | 133,081 | 72,345 |
| Other accrued expenses | 4,366 | 4,539 |
| Other assets | 620 | 9,400 |
| Foreclosed assets for uncollected receivables (Note 25) | 61,297 | - |
| Impairment on foreclosed assets for uncollected receivables (Note 25) | (61,297) | - |
| Total | 198,789 | 129,569 |
| Current | 138,067 | 86,284 |
| Non-current | 60,722 | 43,285 |

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***32 Currency in circulation**

Currency in circulation comprises the following:

| MKD | Nominal value | Pieces | 2015 Value in MKD thousands | Pieces | 2014 Value in MKD thousands |
|--|----------------------|---------------|------------------------------------|---------------|------------------------------------|
| Currency in circulation | | | | | |
| Banknotes | 10 | 27,340,268 | 273,403 | 29,211,407 | 292,114 |
| Banknotes | 50 | 3,769,383 | 188,469 | 4,883,594 | 244,180 |
| Banknotes | 100 | 14,458,996 | 1,445,900 | 13,395,647 | 1,339,565 |
| Banknotes | 500 | 10,317,469 | 5,158,734 | 7,919,080 | 3,959,540 |
| Banknotes | 1000 | 23,644,134 | 23,644,134 | 21,252,368 | 21,252,368 |
| Banknotes | 5000 | 60,886 | 304,430 | 54,118 | 270,590 |
| Coins | 0.5 | 3,941,198 | 1,971 | 3,938,032 | 1,969 |
| Coins | 1 | 88,645,335 | 88,645 | 84,387,153 | 84,387 |
| Coins | 2 | 57,315,423 | 114,631 | 53,870,750 | 107,741 |
| Coins | 5 | 33,542,323 | 167,712 | 31,936,528 | 159,683 |
| Coins | 10 | 25,962,756 | 259,628 | 19,817,750 | 198,177 |
| Coins | 50 | 6,007,988 | 300,399 | 3,395,490 | 169,774 |
| <i>Currency in circulation - Collector coins</i> | | | | | |
| Coins | 10 | 45,233 | 452 | 30,665 | 307 |
| Coins | 100 | 22,152 | 2,215 | 6,449 | 645 |
| Coins | 1000 | 239 | 239 | 229 | 229 |
| Total currency in circulation | | | 31,950,962 | | 28,081,269 |

33 Bank deposits

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Bank deposits in MKD | 16,506,620 | 20,711,620 |
| Bank deposit facilities in MKD with the National Bank | 8,921,222 | 10,156,272 |
| Total | 25,427,842 | 30,867,892 |
| Current | 25,427,842 | 30,867,892 |

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.

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, without possibility 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 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

33 Bank deposits (Continued)

The interest rate on overnight deposits was 0.5% p.a. in January and February 2015, while in the period between March and December 2015, the interest rate was 0.25% p.a. (2014: 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.). The interest rate on the deposits with maturity of 7 days was 1% p.a. for January and February 2015, and 0.5% p.a. for the period between March and December 2015 (2014: 1.50% for January, 1.25% for the period between February and September, while for the period between October and December 2014, it was 1% p.a.).

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

| | 2015 | 2014 |
|---|-------------------|-------------------|
| Banks' foreign exchange reserve requirement | 13,259,751 | 12,580,753 |
| Savings houses' MKD reserve requirement | 21,006 | 22,733 |
| Total | 13,280,757 | 12,603,486 |
| Current | 13,280,757 | 12,603,486 |

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

Until January 2014, the 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 and remuneration on foreign exchange reserve requirement at an interest rate of 0.1 % p.a.

As specified by the regulations, the savings houses are obliged to fulfill the MKD reserve requirement. The reserve requirement of the savings houses is fulfilled at a fixed level. The National Bank was paying reserve requirement remuneration to the savings houses at reserve requirement remuneration rate in MKD of the banks until January 2014.

35 National Bank bills issued

In 2015, the National Bank used a tender with limited volume and fixed interest rate of 3.25% p.a. (2014: the National Bank used a tender with limited volume and fixed interest rate of 3.25% p.a.). As of 31 December 2015, accrued interest on National Bank bills amounted to MKD 33,845 thousand (2014: MKD 48,165 thousand).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(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.

| | 2015 | 2014 |
|-------------------------|-------------------|-------------------|
| Single Treasury account | 10,623,201 | 9,464,634 |
| Other MKD deposits | 721,046 | 700,438 |
| Total | 11,344,247 | 10,165,072 |
| Current | 11,344,247 | 10,165,072 |

In 2015, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1% p.a. (2014: 1% p.a.). Government deposits include the accrued interest in the amount of MKD 9,229 thousand (2014: MKD 5,942 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 2015, these deposits amounted to MKD 17,392,904 thousand (2014: MKD 28,883,207 thousand). In 2015, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7% p.a. (2014: 0.7% p.a.).

38 Restricted deposits

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 2015, the balance of the restricted deposits was MKD 386,317 thousands (2014: MKD 932,544 thousands).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(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 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 the 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 the amount of SDR 6,161,937.

Total liability of the Republic of Macedonia for the SDR allocation at the end of 2015 amounted to SDR 65,616,876 (2014: SDR 65,616,876). According to the IMF's Articles of Agreement, the liability for the SDR allocation falls due 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 the 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 for 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 also refund the assets for paid interest on the liability based on the general and special SDR allocation as well, from the Budget of the Republic of Macedonia.

- b) Borrowings from IMF – on behalf and for the account of Government

In January 2011, the IMF approved the Precautionary Credit Line in the amount of SDR 413,400,000 or 600% of the quota of the Republic of Macedonia for membership with the IMF, as a support for the budget of the Republic Macedonia. In March 2011, the Ministry of Finance drew down SDR 197,000,000 from the approved Precautionary Credit Line. The Ministry of Finance made repayments of the principal amount of the Precautionary Credit Line which matured during 2014 in the total amount of SDR 73,875,000. In February 2015, the Ministry of Finance made early repayment of the remaining balance of the Precautionary Credit Line in the amount of 123,125,000 SDR (Note 21).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2015***(Amounts expressed in thousands of MKD unless otherwise stated)***39 Payables to IMF (Continued)**

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

| | 2015 | 2014 |
|---|------------------|------------------|
| Liabilities based on issued promissory note for membership in the IMF | 5,408,482 | 4,751,281 |
| Liabilities based on account 1 | 13,555 | 11,908 |
| Liabilities based on account 2 | 160 | 140 |
| Total | 5,422,197 | 4,763,329 |
| Current | 5,422,197 | 4,763,329 |

40 Other deposits

| | 2015 | 2014 |
|---|----------------|----------------|
| Liabilities based on MKD deposits to other domestic entities | 154,808 | 628,847 |
| Liabilities based on MKD deposits to international financial institutions | 16,256 | 12,246 |
| Total | 171,064 | 641,093 |
| Current | 171,064 | 641,093 |

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 0.2% p. a. (2014: 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 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

41 Other payables

Payables are analyzed as follows:

| | 2015 | 2014 |
|--|----------------|----------------|
| Liabilities based on BNT bankruptcy | 145,027 | 145,193 |
| Payables on allocation of net income | 64,997 | 53,220 |
| Payables on annuities received from sale of socially-owned flats | 2,189 | 5,990 |
| Tax liabilities | 1,380 | 1,209 |
| Other payables | 34,349 | 25,756 |
| Total | 247,942 | 231,368 |

Payables on the bankruptcy of the Bank for Foreign Trade (BNT) pertain to inherited payables of the National Bank on households' deposits present at the moment when the bank was declared bankrupt in 1995, in the amount of MKD 292,442 thousand. For the purpose of settling 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 (Note 1).

Payables arising on 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

| | 2015 | 2014 |
|---|----------|--------------|
| Provisions for potential liabilities based on litigations with private entities and individuals | - | 1,730 |
| Total | - | 1,730 |

Provisions for potential liabilities based on litigations pertain to the amount of principal and interest the National Bank is expected to be obliged to pay out to private entities and individuals who instituted proceedings against the National Bank (Note 15).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

42 Provisions (Continued)

During 2015, the National Bank released the provision and written off the provisions for potential liabilities based on litigations for legal entities and individuals.

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

| | 2015 | 2014 |
|--|--------------|--------------|
| Balance as at 1 January | 1,730 | - |
| (Release)/Charge of provisions related to lawsuits with private entities and individuals (Note 15) | (715) | 1,730 |
| Written-off provisions for potential liabilities based on litigation with legal entities | (1,015) | - |
| Balance as at 31 December | - | 1,730 |

43 Other liabilities

| | 2015 | 2014 |
|--|----------------|----------------|
| Deposited funds from confiscated foreign currencies and deposited guarantees | 529,898 | 518,115 |
| Jubilee coins counterpart | 105,800 | 103,948 |
| Liabilities to suppliers and other liabilities | 17,138 | 18,781 |
| Deferred income | 4,658 | 4,979 |
| Total | 657,494 | 645,823 |

Liabilities based on deposited funds from 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 2P and 29).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(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 2015, it amounted to MKD 1,289,789 thousand (2014: MKD 1,289,789 thousand).

General and special reserves

As stipulated by the Law on the National Bank and following the allocation of unrealized gains to the other 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. In case of a special reserve account**, distributable earnings shall be distributed so that up to 70% shall be transferred to the special reserves account until reaching the amount set by the National Bank Council to cover costs for previously planned purposes, and 70% of the remainder shall be allocated to general reserves until reaching the level of core capital or 15% after reaching the level of core capital. The general reserves are utilized to cover the general risks related to the National Bank operations. In 2015, the National Bank opened a special purpose account for building of new business premises and transferred MKD 270,544 thousands from the positive distributable earnings for the current year. As of 31 December 2015, the general reserves were increased for the positive distributable earnings for 2015 in the amount of MKD 50,950 thousand.

Other reserves

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Other reserves from unrealized price and exchange rate differences | | |
| - Other reserves from foreign exchange gains | 6,815,284 | 3,953,000 |
| - Other reserves from price and exchange rate differences of gold | 5,900,767 | 6,795,260 |
| - Other reserves from price differences of securities held for trading | 57,654 | 66,917 |
| Total | 12,773,705 | 10,815,177 |

Other 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 any future adverse movements in exchange rates and prices.

Other reserves from foreign exchange gains from foreign exchange assets and liabilities for 2015 are increased by MKD 2,862,284 thousand (2014: MKD 2,435,567 thousand increased on the basis of net unrealized positive foreign exchange differences).

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

** Defined as special reserve account 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 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

44 Capital and reserves (Continued)

Other reserves (Continued)

Other reserves from price and exchange rate differences of gold for 2015 are decreased by MKD 894,493 thousand from which:

- MKD 387,693 thousand as a result of the utilization of the net unrealized negative price and foreign exchange differences of gold (2014: increase as a result of allocation of the net unrealized positive price and exchange rate differences of gold in the amount of MKD 1,454,500 thousand) and
- MKD 506,800 thousand as a result of realized exchange rate and price differences from transactions with gold during 2015, which were added to the financial result for distribution in the current year (2014: MKD 520,770 thousand).

Other reserves from price differences of securities held for trading for 2015 are decreased on a net basis for MKD 9,263 thousands from which:

- Increase 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 the amount of MKD 30,253 thousand (2014: increase of MKD 65,012 thousand on the basis of allocation of the net unrealized positive price differences),
- Decrease on the basis of realized price differences from securities in the amount of MKD 36,937 thousand were added to the distributable earnings for the current year (2014: MKD 6,932 thousands) and
- Decrease as a result of settlement of negative unrealized price changes of securities in the amount of MKD 2,579 thousands.

Revaluation reserve from art works as of 31 of December 2015 amounted to MKD 1,777 thousand (2014: MKD 1,777 thousand).

45 Cash and cash equivalents

| | 2015 | 2014 |
|-------------------------------------|-------------------|------------------|
| Foreign currencies (Note 16) | 385,096 | 97,502 |
| Foreign currency deposits (Note 17) | 13,802,636 | 6,600,019 |
| Special Drawing Rights (Note 20) | 295,023 | 261,457 |
| Total | 14,482,755 | 6,958,978 |

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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2015

(Amounts expressed in thousands of MKD unless otherwise stated)

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.