

**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 2017**

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## INDEPENDENT AUDITOR'S REPORT

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

#### *Opinion*

We have audited the financial statements of the National Bank of the Republic of Macedonia ("the National Bank"), which comprise the statement of financial position as at December 31, 2017, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of the Republic of Macedonia as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the National Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in the Republic of Macedonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### *Responsibilities of the Strategic Management and the Council of the National Bank for the Financial Statements*

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

In preparing the financial statements, strategic management is responsible for assessing the National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Council of the National Bank is responsible for overseeing the National Bank's financial reporting process.

(Continued)

## INDEPENDENT AUDITOR'S REPORT

To the Council of the National Bank of the Republic of Macedonia (Continued)

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the strategic management.
- Conclude on the appropriateness of strategic management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the National Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council of the National Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Deloitte DOO Skopje

Bul. Partizanski Odredi br. 15A, Skopje

February 26, 2018

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## **GENERAL INFORMATION**

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

Dimitar Bogov, Governor

Maja Kadievaska-Vojnovik, Vice Governor

Fadil Bajrami, Vice Governor

Anita Angelovska-Bezoska, Vice Governor (to 26.07.2017 and since 20.09.2017)

Liman Kurtisi

Aleksandar Stojkov

Metodij Hadzi Vaskov

Mihail Petkovski

### **Registered office**

Blvd. Kuzman Josifovski Pitu 1

1000, Skopje

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial Statements for the year ended 31 December 2017**  
*(Amounts expressed in thousands of MKD unless otherwise stated)*

**INCOME STATEMENT**

	Note	2017	2016
Interest income		324,162	261,246
Interest expense		(947,981)	(1,155,939)
Effects of negative interest rates		(13,908)	(19,691)
<b>Net interest expense</b>	<b>5</b>	<b>(637,727)</b>	<b>(914,384)</b>
Fee income		292,360	268,900
Fee expense		(35,435)	(31,902)
<b>Net fee income</b>	<b>6</b>	<b>256,925</b>	<b>236,998</b>
Net unrealized price and exchange rate differences	7	(6,701,591)	2,293,056
Net income from trading securities and derivatives	8	184,564	438,361
Dividend income	9	9,761	7,185
Other operating income	10	436,057	549,667
Personnel expenses	11	(420,801)	(400,070)
Depreciation and amortization charge	26,27	(73,064)	(69,222)
Other expenses	12	(227,215)	(192,708)
Provisions and write offs	13	(28,130)	(18,434)
<b>Loss/Gain for the year, net</b>		<b>(7,201,221)</b>	<b>1,930,449</b>

**STATEMENT OF COMPREHENSIVE INCOME**

	2017	2016
<b>Loss/Gain for the year from the Income statement, net</b>	<b>(7,201,221)</b>	<b>1,930,449</b>
Other comprehensive income		
- Gains on received books donations - library fund	612	1,294
<b>Other comprehensive income for the year</b>	<b>612</b>	<b>1,294</b>
<b>Total comprehensive loss/income for the year</b>	<b>(7,200,609)</b>	<b>1,931,743</b>

The notes on pages 9 to 69 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial Statements for the year ended 31 December 2017**  
*(Amounts expressed in thousands of MKD unless otherwise stated)*

**STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	As at 31 December	
		2017	2016
Foreign currencies	14	216,605	361,946
Foreign currency deposits	15	22,321,596	15,876,763
Foreign securities	16	106,187,422	129,238,819
Derivatives	17	-	-
Gold	18	14,723,366	14,960,273
Special Drawing Rights	19	253,633	291,521
Receivables from Government related to IMF	20	4,804,671	5,115,374
Government securities	21	969,662	940,221
<b>Receivables from Government</b>		<b>5,774,333</b>	<b>6,055,595</b>
IMF Membership	22	10,890,647	10,801,936
Loans to banks	23	15,912	15,912
Other receivables	24	-	-
<b>Receivables from banks</b>		<b>15,912</b>	<b>15,912</b>
Non - current assets or disposal groups held for sale	25	-	108,047
Property and equipment	26	812,825	738,557
Intangible assets	27	37,720	26,231
Coins from precious metals	28	4,825	4,851
Operating receivables	29	35,606	34,747
Other assets	30	344,780	255,097
<b>Total assets</b>		<b>161,619,270</b>	<b>178,770,295</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial Statements for the year ended 31 December 2017**  
*(Amounts expressed in thousands of MKD unless otherwise stated)*

**STATEMENT OF FINANCIAL POSITION (Continued)**

LIABILITIES AND EQUITY	Note	As at 31 December	
		2017	2016
Currency in circulation	31	36,215,863	34,430,041
Bank deposits	32	32,840,951	35,678,072
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	33	14,094,499	14,100,268
National Bank bills issued	34	24,977,473	22,973,701
Government MKD deposits	35	16,352,067	13,955,152
Government foreign currency deposits	36	7,982,657	21,662,311
<b>Government deposits</b>		<b>24,334,724</b>	<b>35,617,463</b>
Restricted deposits	37	1,875,226	562,320
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	38a	4,804,671	5,115,374
Payables based on membership and deposits	38b	10,890,647	10,801,936
<b>Payables to IMF</b>	<b>38</b>	<b>15,695,318</b>	<b>15,917,310</b>
Other deposits	39	604,389	1,152,547
Other payables	40	200,657	237,139
Other liabilities	41	396,591	504,325
<b>Other liabilities</b>		<b>597,248</b>	<b>741,464</b>
<b>Total liabilities</b>		<b>151,235,691</b>	<b>161,173,186</b>
Capital		1,289,789	1,289,789
General reserves		1,311,586	1,309,305
Special reserves		481,426	445,956
Other reserves		7,300,778	14,552,059
<b>Total equity and reserves</b>	<b>42</b>	<b>10,383,579</b>	<b>17,597,109</b>
<b>Total liabilities and equity</b>		<b>161,619,270</b>	<b>178,770,295</b>

The notes on pages 9 to 69 are an integral part of these financial statements



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**
**Financial Statements for the year ended 31 December 2017**
*(Amounts expressed in thousands of MKD unless otherwise stated)*

<b>STATEMENT OF CHANGES IN EQUITY</b>		<b>Note</b>	<b>Capital</b>	<b>General reserves</b>	<b>Special reserves*</b>	<b>Other Reserves**</b>	<b>Art works revaluation and library fund</b>	<b>Accumulated gain</b>	<b>Total capital and reserves</b>
<b>As at 1 January 2016</b>			<b>1,289,789</b>	<b>1,298,029</b>	<b>270,544</b>	<b>12,773,705</b>	<b>1,777</b>	<b>-</b>	<b>15,633,844</b>
Gain for the year			-	-	-	-	-	1,930,449	1,930,449
Gains on received books donations - library fund			-	-	-	-	1,294	-	1,294
<b>Total comprehensive income for 2016</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,294</b>	<b>1,930,449</b>	<b>1,931,743</b>
Net unrealized positive price and exchange rate differences of gold		42	-	-	-	1,615,498	-	(1,615,498)	-
Net unrealized positive price differences from jubilee gold coins		42	-	-	-	95,422	-	-	95,422
Net unrealized positive foreign exchange differences		42	-	-	-	677,558	-	(677,558)	-
Net unrealized positive price differences of securities and derivatives		42	-	-	-	67,250	-	(67,250)	-
Realized price and exchange rate differences of gold		42	-	-	-	(672,432)	-	672,432	-
Realized price differences of securities		42	-	-	-	(8,013)	-	8,013	-
Transfer to general reserves			-	11,276	-	-	-	(11,276)	-
Transfer to the special reserves			-	-	175,412	-	-	(175,412)	-
Transfer to the Budget of the Republic of Macedonia			-	-	-	-	-	(63,900)	(63,900)
<b>As at 31 December 2016</b>			<b>1,289,789</b>	<b>1,309,305</b>	<b>445,956</b>	<b>14,548,988</b>	<b>3,071</b>	<b>-</b>	<b>17,597,109</b>
Loss for the year			-	-	-	-	-	(7,201,221)	(7,201,221)
Gains on received books donations - library fund			-	-	-	-	612	-	612
<b>Total comprehensive loss for 2017</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>612</b>	<b>(7,201,221)</b>	<b>(7,200,609)</b>
Net unrealized negative price and exchange rate differences of gold		42	-	-	-	(330,298)	-	330,298	-
Net unrealized negative foreign exchange differences		42	-	-	-	(6,371,293)	-	6,371,293	-
Net unrealized positive price differences of securities and derivatives		42	-	-	-	12,251	-	(12,251)	-
Net unrealized negative price differences of securities settling by other reserves		42	-	-	-	(3,021)	-	3,021	-
Realized price and exchange rate differences of gold		42	-	-	-	(445,662)	-	445,662	-
Realized price differences of securities and derivatives		42	-	-	-	(113,870)	-	113,870	-
Transfer to general reserves			-	2,281	-	-	-	(2,281)	-
Transfer to the special reserves			-	-	35,470	-	-	(35,470)	-
Transfer to the Budget of the Republic of Macedonia			-	-	-	-	-	(12,921)	(12,921)
<b>As at 31 December 2017</b>			<b>1,289,789</b>	<b>1,311,586</b>	<b>481,426</b>	<b>7,297,095</b>	<b>3,683</b>	<b>-</b>	<b>10,383,579</b>

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

\*\*Defined as revaluation reserve accounts according to the Law on the National Bank of the Republic of Macedonia

The notes on pages 9 to 69 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)*

<b>STATEMENT OF CASH FLOWS</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Cash flow from operating activities</b>			
<b>(Loss)/Gain for the year</b>		<b>(7,201,221)</b>	<b>1,930,449</b>
Adjusted for:			
Interest income	5	(324,162)	(261,246)
Interest expense	5	947,981	1,155,939
Effects of negative interest rates	5	13,908	19,691
Net unrealized price and exchange rate differences of gold		249,864	(1,687,875)
Net income from trading securities and derivatives		(145,661)	(574,703)
Dividends		(9,761)	(7,185)
Revenues from melted gold items		-	(46,079)
Provision and write-offs		28,130	18,434
Depreciation and amortization charge	26,27	73,064	69,222
<b>Cash flows used (in)/from operating (loss)/gain, before changes in operating assets and liabilities</b>		<b>(6,367,858)</b>	<b>616,647</b>
Term deposits over 90 days		1,229,710	2,158,085
Gold		(19,219)	(7,592)
Foreign securities		23,197,058	(20,285,622)
Other assets		(89,594)	(77,409)
Currency in circulation		1,785,822	2,479,079
Bank deposits		(2,837,170)	10,249,276
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		(5,769)	819,511
Government deposits, including restricted and other deposits		(10,508,771)	8,036,527
Other liabilities		(93,237)	(46,383)
Interest received		361,856	247,450
Interest paid		(1,028,161)	(1,187,143)
Dividends received		9,761	7,185
<b>Net cash flows from operating activities</b>		<b>5,634,428</b>	<b>3,009,611</b>
Non - current assets or disposal groups held for sale		78,995	-
Acquisition of property, equipment and intangible assets		(158,209)	(51,849)
<b>Net cash flows used in investing activities</b>		<b>(79,214)</b>	<b>(51,849)</b>
National Bank bills, inflows		322,130,000	273,241,000
National Bank bills, outflows		(320,130,000)	(275,316,000)
Net income paid to the Budget of the Republic of Macedonia		(63,900)	(64,997)
<b>Net cash flows from/(used in) financing activities</b>		<b>1,936,100</b>	<b>(2,139,997)</b>
Net increase in cash and cash equivalents		7,491,314	817,765
<b>Cash and cash equivalents at the beginning of the year</b>		<b>15,300,520</b>	<b>14,482,755</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>43</b>	<b>22,791,834</b>	<b>15,300,520</b>

The notes on pages 9 to 69 are an integral part of these financial statements

**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 maintaining 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, then by the general reserve account and subsequently by the capital.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Notes to the Financial Statements for the year ended 31 December 2017**

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**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 i.e. 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 Government of the Republic of Macedonia, 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 2017 is 446 (as of 31 December 2016: 437).

The financial statements were adopted by the National Bank of the Republic of Macedonia Council on 23 February 2018 and signed by the chairperson of the National Bank Council on its behalf:



Dimitar Bogov,

Chairperson of the National Bank Council



Vesna Filipovska,

Manager  
Finance, Accounting and Controlling

**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. Financial assets measured at fair value are financial assets at fair value through profit and loss, financial derivatives and art works. Property, equipment and intangible assets are measured at cost less accumulated depreciation and impairment losses.

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

The National Bank have neither implemented any new standards nor made changes in 2017 that would have significant material impact on the National Bank's financial statements.

**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)** replaces IAS 39 "Financial Instruments: Recognition and Measurement" and becomes effective for annual periods beginning on or after 1 January 2018.

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. At the end of 2017, the National Bank adopted new accounting policies, implementing the requirements of IFRS 9 and they become effective as of 1 January 2018.

## NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

### Notes to the Financial Statements for the year ended 31 December 2017

#### 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 (Continued)*

The National Bank assessed the impact of IFRS 9, in the following areas:

- The National Bank's classification and measurement of financial assets on or after 1 January 2018 is based on new criteria that take into account the contractual cash flows of assets and the business-model in which they are managed. According to these policies and the analysis of the portfolio of the National Bank, they did not lead to any reclassifications of the financial instruments:

IAS 39 Classification	as of 31 December 2017	IFRS 9 Classification	as of 1 January 2018
<b>Financial assets</b>		<b>Financial assets</b>	
<i>Loans and receivables</i>		<i>Amortized Cost</i>	
Foreign currencies	216,605	Foreign currencies	216,605
Foreign currencies deposits	22,321,596	Foreign currencies deposits	22,321,595
Special Drawing Rights	253,633	Special Drawing Rights	253,633
Receivable from Government related to IMF	4,804,671	Receivable from Government related to IMF	4,804,671
IMF Membership	10,890,647	IMF Membership	10,890,647
Receivables from banks	15,912	Receivables from banks	15,912
Operating receivables and other assets	195,858	Operating receivables and other assets	195,858
	<b>38,698,922</b>		<b>38,698,921</b>
<i>Financial assets at fair value through profit and loss</i>		<i>Financial assets at fair value through profit and loss</i>	
Foreign debt securities	68,644,372	Foreign debt securities	68,644,372
Derivatives	-	Derivatives	-
Gold	14,723,366	Gold	14,723,366
	<b>83,367,738</b>		<b>83,367,738</b>
<i>Securities held to maturity</i>		<i>Amortized Cost</i>	
Foreign debt securities	37,503,693	Foreign debt securities	37,501,119
Government securities	969,662	Government securities	969,662
	<b>38,473,355</b>		<b>38,470,781</b>
<i>Securities available for sale</i>		<i>Financial assets at fair value through other comprehensive income</i>	
Foreign equity securities	39,357	Foreign equity securities	39,357
	<b>39,357</b>		<b>39,357</b>

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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#### **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 (Continued)***

- Impairment based on expected credit losses shall be recognized for the National Bank's receivables and investments in financial assets that are currently classified as held to maturity, and on 1 January 2018 the National Bank calculated expected credit losses on these assets in the amount of MKD 2,575 thousands. As of 1 of January no other transition effect on the amount of expected credit losses has been calculated on any financial asset held.
- It will no longer be possible to measure the equity instruments at cost less impairment and all such instruments will be measured at fair value. Changes in fair value will be presented in the income statement, unless the National Bank irrevocably determines to present them in other comprehensive income. On this basis the National Bank did not calculate any effect of the transition to IFRS 9 requirements.

**IFRS 15 "Revenue from Contracts with Customers"**. IFRS 15 presents new requirements for 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 adoption of the standard will not lead to any material changes in the National Bank's financial statements. The National Bank's major sources of revenue scoped in IFRS 15 relate to revenue from sales of collector coins which amounted to Denar 1,631 thousand (2016: Denar 1,432 thousand) that reflects the consideration to which the National Bank has expected to be entitled in exchange for those goods during the year ended 31 December 2017, when the performance obligation is satisfied, i.e. when 'control' of the goods underlying the performance obligation was transferred to the customers (Note 10).

**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.

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

## **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.

<b>Middle exchange rate:</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>MKD</b>	<b>MKD</b>
USD	51.2722	58.3258
EUR	61.4907	61.4812
SDR	73.2231	77.9582

### **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.



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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

##### **D Sale and repurchase agreements (Continued)**

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 profit and loss account for the period. The obligation to return them is recorded at fair value as a trading liability. 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. Depending on the contracts, interest is paid in cash at the maturity date in USD or EUR. Monetary gold is part of the foreign reserves and is managed in the same way as the other financial assets included in the foreign currency 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 net interest income.

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

##### **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.

##### *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. Foreign debt securities and derivative financial instruments are classified as trading financial assets. Trading securities and derivative financial instruments 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.

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

##### **H Financial assets (Continued)**

###### *Loans and receivables (Continued)*

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 and which do not meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortized cost using the effective interest method.

Were the National Bank to sell or reclassify a significant amount of held-to-maturity assets before the date of maturity, the entire category would be tainted and reclassified as "available for sale".

###### *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.

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

**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.

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.

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

**J Impairment and uncollectibility of financial assets (Continued)**

*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.

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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#### **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 account 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 account 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:

	<b>2017</b>	<b>2016</b>
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.

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

**N Intangible assets**

Intangible assets consist of computer software and licenses. These assets are stated at their cost and are reduced for the accumulated amortization and impairment losses. They are amortized on a straight-line basis over the estimated useful life, not exceeding a period of 2 to 5 years.

**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.

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

##### **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.

##### **S Short-term securities**

The short-term securities (National Bank bills) are issued only in domestic currency and are with maturity of 28/35 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.



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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

##### **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.

###### *Fee and other income and expense*

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

###### *Net income from trading securities and derivatives*

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). Gains and losses arising from the difference of the fair value of the transactions in derivative financial instruments are recognized in the income statement.

##### **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.

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

##### **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 2017.

##### **Z Taxation**

According to the applicable regulations for Income Tax, the National Bank is exempted from income tax.

According to the 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.

##### **Segment reporting**

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

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

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### **Notes to the Financial Statements for the year ended 31 December 2017**

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

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

The statement of financial position of the National Bank is largely comprised of financial instruments. These instruments expose the National Bank to a number of financial 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 a contracting party default, 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 of 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.

Foreign assets are invested in instruments issued or guaranteed by governments or government agencies, international financial institutions and multilateral development banks, commercial banks and financial institutions enjoying long-term credit rating of minimum BBB-/Baa3 or equivalent, assigned by internationally recognized rating agencies.

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.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

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

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

The table below presents maximum exposure to credit risk by type of assets:

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Foreign currency deposits		
- Current accounts	21,620,650	7,363,843
- Term deposits	700,946	8,512,920
Foreign securities	106,187,422	129,238,819
Gold deposits	14,696,544	14,932,994
Special Drawing Rights	253,633	291,521
Receivables from Government related to IMF	4,804,671	5,115,374
Government securities	969,662	940,221
Receivables from banks	15,912	15,912
Operating receivables and other assets	195,858	35,348
<b>As at 31 December</b>	<b>149,445,298</b>	<b>166,446,952</b>

The credit risk is managed by determining a financial institution - commercial bank or issuer of security and setting quantitative limits based on criteria set by the National Bank Council and the Governor of the National Bank.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

The table below presents an analysis of the financial assets that are neither due, nor impaired, by rating agency designation as at 31 December 2017, based on Standard & Poor's ratings or their equivalent:

<b>Credit rating</b>	<b>Gold deposits</b>	<b>Current accounts</b>	<b>Term deposits</b>	<b>Foreign securities</b>	<b>Special Drawing Rights</b>	<b>Receivables from Government</b>	<b>Receivables from banks</b>	<b>Operating receivables and other assets</b>	<b>Total</b>
AAA	-	8,527,642	-	19,770,013	-	-	-	-	<b>28,297,655</b>
AA+	-	7,441,713	-	18,445,681	-	-	-	-	<b>25,887,394</b>
AA	7,374,939	1,267,128	-	12,940,209	-	-	-	-	<b>21,582,276</b>
AA-	-	941,965	-	7,633,794	-	-	-	-	<b>8,575,759</b>
A+	1,993,926	8,280	700,946	10,295,734	-	-	-	-	<b>12,998,886</b>
A	5,316,338	166,603	-	12,487,624	-	-	-	-	<b>17,970,565</b>
A-	-	6,309	-	4,002,659	-	-	-	-	<b>4,008,968</b>
II <sup>1</sup>	11,341	7,510	-	39,357	253,633	-	-	-	<b>311,841</b>
BBB+	-	720	-	18,793,352	-	-	-	-	<b>18,794,072</b>
BBB	-	3,252,780	-	1,778,999	-	-	-	-	<b>5,031,779</b>
BB- <sup>2</sup>	-	-	-	-	-	5,774,333	-	-	<b>5,774,333</b>
Unrated	-	-	-	-	-	-	15,912	195,858	<b>211,770</b>
<b>Total</b>	<b>14,696,544</b>	<b>21,620,650</b>	<b>700,946</b>	<b>106,187,422</b>	<b>253,633</b>	<b>5,774,333</b>	<b>15,912</b>	<b>195,858</b>	<b>149,445,298</b>

The table below presents an analysis of the financial assets that are neither past due, nor impaired, by rating agency designation as at 31 December 2016, based on Standard & Poor's ratings or their equivalent:

<sup>1</sup> International Institutions

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(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 and other assets	Total
AAA	-	5,291,082	583,501	29,100,409	-	-	-	-	<b>34,974,992</b>
AA+	-	1,205,739	-	38,735,151	-	-	-	-	<b>39,940,890</b>
AA	8,159,038	763,565	-	12,195,024	-	-	-	-	<b>21,117,627</b>
AA-	1,353,071	4,137	-	9,739,232	-	-	-	-	<b>11,096,440</b>
A+	676,119	17,027	1,216,742	8,708,733	-	-	-	-	<b>10,618,621</b>
A	4,733,232	10,843	6,712,677	5,840,714	-	-	-	-	<b>17,297,466</b>
A-	-	-	-	730,257	-	-	-	-	<b>730,257</b>
II <sup>3</sup>	11,534	1,549	-	41,903	291,521	-	-	-	<b>346,507</b>
BBB+	-	4,529	-	22,308,330	-	-	-	-	<b>22,312,859</b>
BBB	-	988	-	-	-	-	-	-	<b>988</b>
BBB-	-	64,384	-	1,839,066	-	-	-	-	<b>1,903,450</b>
BB- <sup>4</sup>	-	-	-	-	-	6,055,595	-	-	<b>6,055,595</b>
Unrated	-	-	-	-	-	-	15,912	35,348	<b>51,260</b>
<b>Total</b>	<b>14,932,994</b>	<b>7,363,843</b>	<b>8,512,920</b>	<b>129,238,819</b>	<b>291,521</b>	<b>6,055,595</b>	<b>15,912</b>	<b>35,348</b>	<b>166,446,952</b>

Financial assets which are individually impaired are presented in other receivables from banks (Note 24) and operating receivables (Note 29).

**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 2017. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

<sup>3</sup> International Institutions

<sup>4</sup> Rating of the Republic of Macedonia

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(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 (Continued)**

	EU Countries	Non-EU member countries	Republic of Macedonia	Other OECD countries	Other countries	Total
Gold deposits	12,691,277	11,341	-	1,993,926	-	<b>14,696,544</b>
Current accounts	13,179,456	38,050	-	7,470,470	932,674	<b>21,620,650</b>
Term deposits	700,946	-	-	-	-	<b>700,946</b>
Foreign securities	76,633,593	2,201,435	-	11,984,374	15,368,020	<b>106,187,422</b>
Special Drawing Rights	-	-	-	253,633	-	<b>253,633</b>
Receivables from Government	-	-	5,774,333	-	-	<b>5,774,333</b>
Receivables from banks	-	-	15,912	-	-	<b>15,912</b>
Operating receivables and other assets	-	-	195,858	-	-	<b>195,858</b>
<b>31 December 2017</b>	<b>103,205,272</b>	<b>2,250,826</b>	<b>5,986,103</b>	<b>21,702,403</b>	<b>16,300,694</b>	<b>149,445,298</b>
<b>31 December 2016</b>	<b>113,185,352</b>	<b>646,015</b>	<b>6,106,855</b>	<b>42,603,507</b>	<b>3,905,223</b>	<b>166,446,952</b>

## NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

### Notes to the Financial Statements for the year ended 31 December 2017

(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 market value of the financial instruments due to the unfavorable movements of interest rates. The market risk management is performed by setting quantitative limits for foreign assets risk exposure acceptable for the National Bank and they are monitored on a daily basis. In 2016, a budget for risk was introduced in accordance with the Policies and regulations for management and investment of foreign reserves, which limit the level of reduction in the market value of foreign reserves to the level of the budget specified for risk.

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, when calculating VAR, applies a level of confidence of 95% and a one year horizon<sup>5</sup>, and 99% and a 10-day horizon<sup>6</sup>. The fluctuation of the prices of the instruments and the foreign exchange rates are determined according to the historical changes in the prices and the foreign exchange rates for instruments and currencies comprising the foreign reserves at the end of the month.

In December 2017, the exposure of the foreign reserves managed by the National Bank (Value at Risk at a level of confidence of 99% for a 10-day horizon), in terms of fluctuations of the prices of instruments and foreign exchange rates against the Euro equals MKD 919,282 thousands (Euro 14,969,645), or 0.6% of the foreign reserves. The VAR originating from the change in the foreign exchange rate for the same horizon (on a diversified basis and included change in the price of gold) amounts to MKD 824,566 thousands (Euro 13,427,286), while VAR from the change in the prices of instruments in which the foreign reserves are invested totals MKD 94,716 thousands (Euro 1,542,359).

	31 December 2017	31 December 2016
Currency risk	824,566	2,191,731
Interest rate risk	94,716	149,792
Total VAR	919,282	2,341,523

<sup>5</sup> For internal assessment of the set budget for risk.

<sup>6</sup> As recommended in the Basel Agreement from 1999.



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

**Notes to the Financial Statements for the year ended 31 December 2017**

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

**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, the currency structure of external liabilities of the National Bank and the Government, foreign trade, and other needs for liquidity. Consequently, the Euro dominates the currency structure of the foreign reserves. The share of other currencies is to provide suitable profitability in the long term, taking into account the restrictions on undertaking currency risk determined by the level of other reserves from foreign exchange gains. 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 2017 and 31 December 2016, analyzed by currency.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2017:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign currencies	188,562	14,566	-	13,477	-	<b>216,605</b>
Foreign currency deposits	14,784,833	7,477,217	-	59,546	-	<b>22,321,596</b>
Foreign securities	91,517,022	14,631,043	39,357	-	-	<b>106,187,422</b>
Gold	-	14,723,366	-	-	-	<b>14,723,366</b>
Special Drawing Rights	-	-	253,633	-	-	<b>253,633</b>
Receivables from Government	-	-	4,804,671	-	969,662	<b>5,774,333</b>
IMF Membership Receivables from banks	-	-	10,890,647	-	-	<b>10,890,647</b>
Operating receivables and other assets	-	-	-	-	15,912	<b>15,912</b>
	23,873	37	5,745	10,564	155,639	<b>195,858</b>
<b>Total assets</b>	<b>106,514,290</b>	<b>36,846,229</b>	<b>15,994,053</b>	<b>83,587</b>	<b>1,141,213</b>	<b>160,579,372</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	36,215,863	<b>36,215,863</b>
Bank deposits Reserve requirements	1,914,070	-	-	-	30,926,881	<b>32,840,951</b>
National Bank Bills issued	14,073,254	-	-	-	21,245	<b>14,094,499</b>
Government deposits	-	-	-	-	24,977,473	<b>24,977,473</b>
Restricted deposits	7,848,633	89,264	-	44,760	16,352,067	<b>24,334,724</b>
Payables to IMF	1,801,392	73,834	-	-	-	<b>1,875,226</b>
Other deposits	-	-	15,695,318	-	-	<b>15,695,318</b>
Other liabilities	-	-	-	-	604,389	<b>604,389</b>
	288,569	16,752	5,745	43,326	235,529	<b>589,921</b>
<b>Total liabilities</b>	<b>25,925,918</b>	<b>179,850</b>	<b>15,701,063</b>	<b>88,086</b>	<b>109,333,447</b>	<b>151,228,364</b>
<b>Net financial position</b>	<b>80,588,372</b>	<b>36,666,379</b>	<b>292,990</b>	<b>(4,499)</b>	<b>(108,192,234)</b>	<b>9,351,008</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2016:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign currencies	315,700	35,904	-	10,342	-	<b>361,946</b>
Foreign currency deposits	7,333,518	8,522,404	-	20,841	-	<b>15,876,763</b>
Foreign securities	80,566,864	48,630,052	41,903	-	-	<b>129,238,819</b>
Gold	-	14,960,273	-	-	-	<b>14,960,273</b>
Special drawing rights	-	-	291,521	-	-	<b>291,521</b>
Receivables from Government	-	-	5,115,374	-	940,221	<b>6,055,595</b>
IMF Membership Receivables from banks	-	-	10,801,936	-	-	<b>10,801,936</b>
Operating receivables and other assets	-	-	-	-	15,912	<b>15,912</b>
	715	119	1,835	11,615	21,064	<b>35,348</b>
<b>Total assets</b>	<b>88,216,797</b>	<b>72,148,752</b>	<b>16,252,569</b>	<b>42,798</b>	<b>977,197</b>	<b>177,638,113</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	34,430,041	<b>34,430,041</b>
Bank deposits Reserve requirements	4,580,889	-	-	-	31,097,183	<b>35,678,072</b>
National Bank Bills issued	14,078,656	-	-	-	21,612	<b>14,100,268</b>
Government deposits	-	-	-	-	22,973,701	<b>22,973,701</b>
	21,619,990	5,957	-	36,364	13,955,152	<b>35,617,463</b>
Restricted deposits	479,811	82,487	-	22	-	<b>562,320</b>
Payables to IMF	-	-	15,917,310	-	-	<b>15,917,310</b>
Other deposits	-	-	-	-	1,152,547	<b>1,152,547</b>
Other liabilities	397,070	21,848	1,835	45,787	266,870	<b>733,410</b>
<b>Total liabilities</b>	<b>41,156,416</b>	<b>110,292</b>	<b>15,919,145</b>	<b>82,173</b>	<b>103,897,106</b>	<b>161,165,132</b>
<b>Net financial position</b>	<b>47,060,381</b>	<b>72,038,460</b>	<b>333,424</b>	<b>(39,375)</b>	<b>(102,919,909)</b>	<b>16,472,981</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

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**Notes to the Financial Statements for the year ended 31 December 2017**

*(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 2017 and 31 December 2016 is presented in the tables below. Tables include the National Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2017:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
<b>ASSETS</b>							
Foreign currencies	-	-	-	-	-	216,605	<b>216,605</b>
Foreign currency deposits	22,318,360	-	-	-	-	3,236	<b>22,321,596</b>
Foreign securities	256,390	1,744,548	60,531,773	8,062,310	19,207,993	16,384,408	<b>106,187,422</b>
Gold	6,027,288	7,308,604	-	-	-	1,387,474	<b>14,723,366</b>
Special drawing rights	253,633	-	-	-	-	-	<b>253,633</b>
Receivables from Government	-	-	-	969,662	-	4,804,671	<b>5,774,333</b>
IMF Membership	-	-	-	-	-	10,890,647	<b>10,890,647</b>
Receivables from banks	-	-	-	15,912	-	-	<b>15,912</b>
Operating receivables and other assets	-	-	-	-	-	195,858	<b>195,858</b>
<b>Total assets</b>	<b>28,855,671</b>	<b>9,053,152</b>	<b>60,531,773</b>	<b>9,047,884</b>	<b>19,207,993</b>	<b>33,882,899</b>	<b>160,579,372</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	36,215,863	<b>36,215,863</b>
Bank deposits	10,872,000	-	-	-	-	21,968,951	<b>32,840,951</b>
Reserve requirements	-	-	-	-	-	14,094,499	<b>14,094,499</b>
National Bank Bills issued	24,936,975	-	-	-	-	40,498	<b>24,977,473</b>
Government deposits	6,000,000	-	-	-	-	18,334,724	<b>24,334,724</b>
Restricted deposits	-	-	-	-	-	1,875,226	<b>1,875,226</b>
Payables to IMF	-	-	-	-	-	15,695,318	<b>15,695,318</b>
Other deposits	-	-	-	-	-	604,389	<b>604,389</b>
Other liabilities	-	-	-	-	-	589,921	<b>589,921</b>
<b>Total liabilities</b>	<b>41,808,975</b>	-	-	-	-	<b>109,419,389</b>	<b>151,228,364</b>
<b>Total interest rate risk</b>	<b>(12,953,304)</b>	<b>9,053,152</b>	<b>60,531,773</b>	<b>9,047,884</b>	<b>19,207,993</b>	<b>(75,536,490)</b>	<b>9,351,008</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

**Notes to the Financial Statements for the year ended 31 December 2017**

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

**3. Financial risk management (Continued)**

**D Interest rate risk (Continued)**

As at 31 December 2016:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
<b>ASSETS</b>							
Foreign currencies	-	-	-	-	-	361,946	<b>361,946</b>
Foreign currency deposits	14,645,205	-	1,229,624	-	-	1,934	<b>15,876,763</b>
Foreign securities	3,060,254	3,134,479	87,319,939	15,976,036	18,682,233	1,065,878	<b>129,238,819</b>
Gold	2,031,345	3,376,659	8,142,938	-	-	1,409,331	<b>14,960,273</b>
Special drawing rights	291,521	-	-	-	-	-	<b>291,521</b>
Receivables from Government	-	-	-	940,221	-	5,115,374	<b>6,055,595</b>
IMF Membership	-	-	-	-	-	10,801,936	<b>10,801,936</b>
Receivables from banks	-	-	-	15,912	-	-	<b>15,912</b>
Operating receivables and other assets	-	-	-	-	-	35,348	<b>35,348</b>
<b>Total assets</b>	<b>20,028,325</b>	<b>6,511,138</b>	<b>96,692,501</b>	<b>16,932,169</b>	<b>18,682,233</b>	<b>18,791,747</b>	<b>177,638,113</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	34,430,041	<b>34,430,041</b>
Bank deposits Reserve requirements	13,305,000	-	4,580,350	-	-	17,792,722	<b>35,678,072</b>
National Bank Bills issued	22,933,116	-	-	-	-	40,585	<b>22,973,701</b>
Government deposits	32,616,994	-	-	-	-	3,000,469	<b>35,617,463</b>
Restricted deposits	-	-	-	-	-	562,320	<b>562,320</b>
Payables to IMF	-	-	-	-	-	15,917,310	<b>15,917,310</b>
Other deposits	1,112,950	-	-	-	-	39,597	<b>1,152,547</b>
Other liabilities	-	-	-	-	-	733,410	<b>733,410</b>
<b>Total liabilities</b>	<b>69,968,060</b>	<b>-</b>	<b>4,580,350</b>	<b>-</b>	<b>-</b>	<b>86,616,722</b>	<b>161,165,132</b>
<b>Total interest rate risk</b>	<b>(49,939,735)</b>	<b>6,511,138</b>	<b>92,112,151</b>	<b>16,932,169</b>	<b>18,682,233</b>	<b>(67,824,975)</b>	<b>16,472,981</b>

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

#### **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 debt securities for which a developed and liquid secondary market exists. The National Bank manages the liquidity risk by determining and maintaining liquid assets at levels sufficient for conducting monetary and foreign exchange policies, timely and regular payments of the external debt and current and/or capital expenditures with foreign currency component for the account of the government, and meets the transactional needs in the management of foreign reserves. According to the new Policies and Procedures for managing and investing foreign reserves of December 2015, consistent with the best global practices, in 2016, a new approach to liquidity risk management was adopted and a new operational portfolio was defined for more active liquidity management. The operational portfolio provides liquidity to realize cash flows for a period of one month, and the level of the liquidity portfolio is determined dynamically, at the minimum level of the operational portfolio for the following 12 months. The operational and the liquidity portfolio is forecast at least once a year, and reviewed periodically based on the forecast of the needs for liquidity, the expected foreign currency needs of the country in the medium term and the vulnerability assessment of the balance of payments. The maximum maturity of the deposits in the operational portfolio is two weeks, whereas the maximum remaining maturity date for the debt securities is up to one month. The modified duration of the liquidity portfolio is lower than the investment portfolio and is determined depending on the market conditions and the acceptable level of interest rate risk. Availability of foreign exchange liquidity is not confined to the operational and the liquidity portfolio, when the investment in debt securities provides sufficient liquidity through their prompt conversion into foreign assets within the investment portfolio.

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 2017**

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

**3. Financial risk management (Continued)**

**E Liquidity risk (Continued)**

<b>31 December 2017</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Currency in circulation	36,215,863	-	-	-	-	<b>36,215,863</b>
Bank deposits	17,992,067	-	14,848,884	-	-	<b>32,840,951</b>
Reserve requirements	-	-	14,094,499	-	-	<b>14,094,499</b>
National Bank Bills issued	24,977,473	-	-	-	-	<b>24,977,473</b>
Government deposits	24,334,724	-	-	-	-	<b>24,334,724</b>
Restricted deposits	1,706,713	6,116	162,397	-	-	<b>1,875,226</b>
Payables to IMF	15,695,318	-	-	-	-	<b>15,695,318</b>
Other deposits	604,389	-	-	-	-	<b>604,389</b>
Other liabilities	545,586	12,921	31,414	-	-	<b>589,921</b>
<b>Total liabilities</b> (contractual maturity dates)	<b>122,072,133</b>	<b>19,037</b>	<b>29,137,194</b>	-	-	<b>151,228,364</b>
<b>Assets held for managing liquidity risk</b> (expected maturity dates)	<b>122,308,234</b>	<b>1,753,952</b>	<b>8,027,065</b>	<b>8,100,213</b>	<b>20,389,908</b>	<b>160,579,372</b>

<b>31 December 2016</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Currency in circulation	34,430,041	-	-	-	-	<b>34,430,041</b>
Bank deposits	14,561,355	1,229,691	19,887,026	-	-	<b>35,678,072</b>
Reserve requirements	-	-	14,100,268	-	-	<b>14,100,268</b>
National Bank Bills issued	22,973,701	-	-	-	-	<b>22,973,701</b>
Government deposits	35,617,463	-	-	-	-	<b>35,617,463</b>
Restricted deposits	140,078	295,739	126,503	-	-	<b>562,320</b>
Payables to IMF	15,917,310	-	-	-	-	<b>15,917,310</b>
Other deposits	1,152,547	-	-	-	-	<b>1,152,547</b>
Other liabilities	642,679	63,900	26,831	-	-	<b>733,410</b>
<b>Total liabilities</b> (contractual maturity dates)	<b>125,435,174</b>	<b>1,589,330</b>	<b>34,140,628</b>	-	-	<b>161,165,132</b>
<b>Assets held for managing liquidity risk</b> (expected maturity dates)	<b>124,713,252</b>	<b>14,580,603</b>	<b>2,473,845</b>	<b>16,988,223</b>	<b>18,882,190</b>	<b>177,638,113</b>



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(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 of an asset traded (exchanged) or a liability settled at arm's length between market participants at the measurement date.

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	
	2017	2016	2017	2016
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Foreign currencies	216,605	361,946	216,605	361,946
Foreign currencies deposits	22,321,596	15,876,763	22,321,596	15,876,763
Special Drawing Rights	253,633	291,521	253,633	291,521
Receivable from				
Government related to IMF	4,804,671	5,115,374	4,804,671	5,115,374
IMF Membership	10,890,647	10,801,936	10,890,647	10,801,936
Receivables from banks	15,912	15,912	15,912	15,912
Operating receivables and other assets	195,858	35,348	195,858	35,348
	<b>38,698,922</b>	<b>32,498,800</b>	<b>38,698,922</b>	<b>32,498,800</b>
<i>Securities held to maturity</i>				
Foreign debt securities	37,503,693	41,118,725	37,087,999	40,720,576
Government securities	969,662	940,221	969,662	940,221
	<b>38,473,355</b>	<b>42,058,946</b>	<b>38,057,661</b>	<b>41,660,797</b>
<i>Securities available for sale</i>				
Foreign equity securities	39,357	41,903	39,357	41,903
	<b>39,357</b>	<b>41,903</b>	<b>39,357</b>	<b>41,903</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****F Fair value of financial assets and liabilities (Continued)**

	Carrying value		Fair value	
	2017	2016	2017	2016
<b>Financial liabilities</b>				
<i>Carried at amortized cost</i>				
Currency in circulation	36,215,863	34,430,041	36,215,863	34,430,041
Bank deposits	32,840,951	35,678,072	32,840,951	35,678,072
Reserve requirement of banks and saving houses	14,094,499	14,100,268	14,094,499	14,100,268
National Bank bills issued	24,977,473	22,973,701	24,977,473	22,973,701
Government MKD deposits	16,352,067	13,955,152	16,352,067	13,955,152
Government foreign currency deposits	7,982,657	21,662,311	7,982,657	21,662,311
Payables to IMF	15,695,318	15,917,310	15,695,318	15,917,310
Other and restricted deposits	2,479,615	1,714,867	2,479,615	1,714,867
Other liabilities	589,921	733,410	589,921	733,410
	<b>151,228,364</b>	<b>161,165,132</b>	<b>151,228,364</b>	<b>161,165,132</b>

**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 16, available-for-sale securities include Bank for International Settlement (BIS) shares with a value of MKD 39,357 thousand (2016: MKD 41,903 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.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

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**Notes to the Financial Statements for the year ended 31 December 2017**

*(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 (Continued)**

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, the fair value of liabilities based on IMF Membership and SDR allocation 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 2017***(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 using models where one or more significant inputs are not observable.

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

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign debt securities	68,644,372	-	-	68,644,372
Gold	14,723,366	-	-	14,723,366
<b>Total financial assets</b>	<b>83,367,738</b>	<b>-</b>	<b>-</b>	<b>83,367,738</b>

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign debt securities	88,078,191	-	-	88,078,191
Gold	14,960,273	-	-	14,960,273
<b>Total financial assets</b>	<b>103,038,464</b>	<b>-</b>	<b>-</b>	<b>103,038,464</b>

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

#### **4. Critical accounting estimates and judgments in applying accounting policies**

The most significant areas, for which judgements, estimates and assumptions are required, are:

##### *Fair value of financial instruments*

The National Bank uses internal valuation techniques for determining the fair value of those financial instruments that are not quoted in active markets. These techniques include estimates and assumptions that market participants would use in determining the value of the instrument. The National Bank estimates the value on the basis of the variety of available factors, including actual or estimated market prices and rates, such as time value and volatility, market conditions and liquidity. Estimated values may differ from the value that would be achieved in the transaction at the measurement date.

The National Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. In the Republic of Macedonia, sufficient market experience, stability, and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are not readily available. The National Bank assesses its overall risk exposure and in instances in which it estimates that the value in the books may not be realized, it recognizes a provision. In the opinion of the National Bank, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions (Note 3F).

##### *Useful lives of tangible and intangible assets*

The National Bank management determines estimated useful lives and related depreciation and amortization charges for its tangible and intangible assets. The appropriateness of the estimated useful lives is reviewed annually or whenever there is an indication of significant changes in the underlying assumptions, such as anticipated technological developments and changes in the broad economic and industry factors (Notes 2M and 2N).

##### *Actuarial assumptions in respect of defined benefit plan*

Any cost to Bank depends on actual future experience and in particular change in discount rate and pay increase. Other factors will also change the overall liability such as the number of employees, leaving service before the retirement and the number of new employees (Notes 2Y and 40).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***5. Net interest expense****Interest income**

	Government	Domestic banks and other financial institutions	Foreign subjects	Total	Total
				2017	2016
Deposits	-	-	84,249	<b>84,249</b>	<b>45,611</b>
Held to maturity securities	29,441	-	176,780	<b>206,221</b>	<b>163,500</b>
Gold deposits	-	-	22,814	<b>22,814</b>	<b>40,892</b>
Reverse repos in foreign currency	-	-	8,672	<b>8,672</b>	<b>8,538</b>
Reverse repos in denars	-	-	-	-	<b>2,309</b>
Other interest	41	2,165	-	<b>2,206</b>	<b>396</b>
<b>Total for 2017</b>	<b>29,482</b>	<b>2,165</b>	<b>292,515</b>	<b>324,162</b>	<b>261,246</b>
<b>Total for 2016</b>	<b>28,704</b>	<b>2,548</b>	<b>229,994</b>	<b>261,246</b>	-

**Interest expense**

	Government	Domestic banks and other financial institutions	Foreign subjects	Total	Total
				2017	2016
Deposits	15,208	44,924	-	<b>60,132</b>	<b>300,519</b>
National Bank bills	-	887,849	-	<b>887,849</b>	<b>854,123</b>
Repos transactions	-	-	-	-	<b>1,297</b>
<b>Total for 2017</b>	<b>15,208</b>	<b>932,773</b>	-	<b>947,981</b>	<b>1,155,939</b>
<b>Total for 2016</b>	<b>263,471</b>	<b>891,171</b>	<b>1,297</b>	<b>1,155,939</b>	

**Effects of negative interest rates**

	Government	Domestic banks and other financial institutions	Foreign subjects	Total	Total
				2017	2016
Foreign currency deposits	-	-	(22,604)	<b>(22,604)</b>	<b>(22,092)</b>
Repos in foreign currency	-	-	60,873	<b>60,873</b>	<b>16,808</b>
Reverse repos in foreign currency	-	-	(52,177)	<b>(52,177)</b>	<b>(14,407)</b>
<b>Total for 2017</b>	-	-	<b>(13,908)</b>	<b>(13,908)</b>	<b>(19,691)</b>
<b>Total for 2016</b>	-	-	<b>(19,691)</b>	<b>(19,691)</b>	

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***6. Net fee income****Fee income**

	<b>2017</b>	<b>2016</b>
Fees from providing cash to banks	73,838	73,771
Fees from domestic banks for maintaining account based on debt turnover on an account	129,340	114,727
Fees based on settlement of payments (RTGS)	40,063	38,567
Fees from foreign exchange operations	25,267	22,503
Other fees	23,852	19,332
<b>Total</b>	<b>292,360</b>	<b>268,900</b>

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

The revenues based on fees from providing cash to banks, settlement of payments through RTGS<sup>7</sup> 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.

**Fee expense**

	<b>2017</b>	<b>2016</b>
Fees to foreign banks	26,195	22,831
Fees for Securities Depositories	7,205	8,662
Fees for future contracts	1,646	78
Other fees	389	331
<b>Total</b>	<b>35,435</b>	<b>31,902</b>

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.

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<sup>7</sup> RTGS is Macedonian Interbank Payment System (MIPS), owned by the National Bank

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***7. Net unrealized price and exchange rate differences**

	<b>2017</b>	<b>2016</b>
Unrealized positive exchange rate differences	3,423,538	6,535,974
Unrealized negative exchange rate differences	(9,794,831)	(5,858,416)
Unrealized positive price and exchange rate differences from gold	11,565,794	17,088,769
Unrealized negative price and exchange rate differences from gold	(11,896,092)	(15,473,271)
<b>Total</b>	<b>(6,701,591)</b>	<b>2,293,056</b>

**8. Net income from trading securities and derivatives**

	<b>2017</b>	<b>2016</b>
Realized gains from trading securities	63,394	151,078
Realized losses from trading securities	(234,578)	(471,793)
Unrealized positive price differences from trading securities	7,047	65,113
Unrealized negative price differences from trading securities	(951,376)	(1,037,718)
Interest income from trading securities	1,241,821	1,728,938
<b>Total net income from trading securities</b>	<b>126,308</b>	<b>435,618</b>
Realized gains from derivative financial instruments – futures	65,191	1,256
Realized losses from derivative financial instruments - futures	(4,926)	(650)
Unrealized positive price differences from derivative financial instruments - futures	5,204	2,137
Unrealized negative price differences from derivative financial instruments – futures	(7,213)	-
<b>Total net income from derivatives - futures</b>	<b>58,256</b>	<b>2,743</b>
<b>Total net income from trading securities and derivatives</b>	<b>184,564</b>	<b>438,361</b>

The net income realized as part of the RAMP<sup>8</sup> program with the World bank in the amount of MKD 41,981 thousand, is included in the net income from trading securities and derivatives for 2017 (2016: MKD 78,072 thousands).

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<sup>8</sup> Reserve Advisory Management Program



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***9. Dividend income**

	<b>2017</b>	<b>2016</b>
Dividend income on investments in BIS	9,761	7,185
<b>Total</b>	<b>9,761</b>	<b>7,185</b>

**10. Other operating income**

	<b>2017</b>	<b>2016</b>
Realized positive exchange rate and price differences, net	412,096	477,568
Revenue from melting gold into monetary gold	-	46,079
Royalty income from collector coins	3,411	4,749
Revenue from sale of collector coins	1,631	1,432
Other income	18,919	19,839
<b>Total</b>	<b>436,057</b>	<b>549,667</b>

The net realized positive exchange rate and price differences arise from purchase and sale of foreign currency with domestic banks, purchase and sale of gold and foreign currency 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. Revenue from melting of gold into monetary gold in 2016 are a result of the melting of seized gold yielded to the National Bank into monetary gold, based on the Law Amending the Law on Management of Confiscated Property, Property Benefits, and Items Seized in criminal proceedings.<sup>9</sup>

**11. Personnel expenses**

	<b>2017</b>	<b>2016</b>
Wages and personal income tax	294,943	285,756
Pension cost – defined contribution plans	73,029	70,763
Mandatory contributions	36,515	35,381
Other personnel expenses	16,314	8,170
<b>Total</b>	<b>420,801</b>	<b>400,070</b>

In 2017, the remuneration of the key management of the National Bank was MKD 13,506 thousands (2016: MKD 13,453 thousand), included in "Personnel expenses" above, and it relates to short term employee benefits.

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<sup>9</sup> Official Gazette of the Republic of Macedonia No. 97/2015

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***12. Other expenses**

	<b>2017</b>	<b>2016</b>
Costs of production of banknotes and coins	105,554	77,547
Services	63,411	65,176
Material expenses	25,407	25,536
Other administrative expenses	27,622	19,482
Collector coins expenses	3,415	3,570
Other expenses	1,806	1,397
<b>Total</b>	<b>227,215</b>	<b>192,708</b>

The costs of banknote and coin manufacture mainly relate to imported banknotes and coins, and to the materials purchased for minting coins (coin blanks). Banknotes are printed and coins are minted by domestic or foreign manufacturers, and the coin minting using the purchased coin blanks 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, within a period of 2 to 3 years.

**13. Provisions and write offs**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
(Released)/Charged impairment loss for other receivables	29	(917)	69
(Released)/Charged impairment for interest income	29	(5)	5
Charged impairment loss on non-current assets held for sale	25	29,052	5,385
Charged impairment loss on assets under construction	26	-	12,975
<b>Total</b>		<b>28,130</b>	<b>18,434</b>

**14. 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 43).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***15. Foreign currency deposits**

	<b>2017</b>	<b>2016</b>
Foreign currency sight deposits	21,606,440	7,344,061
Foreign assets placed at World Bank – RAMP	14,210	19,782
Foreign currency term deposits	-	7,283,210
Foreign currency term deposits placed at World Bank-RAMP	700,946	-
<b>Included in the cash and cash equivalents (Note 43)</b>	<b>22,321,596</b>	<b>14,647,053</b>
Foreign currency term deposits over 90 days	-	1,229,710
<b>Total</b>	<b>22,321,596</b>	<b>15,876,763</b>

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

<b>Interest rate type</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
- Overnight deposits in USD	0,92%	0.37%
- Overnight deposits in USD-RAMP	0,98%	0.44%
- Euro overnight deposits	-0,4%	-0.38%
- Term deposits in USD	1,05%	0.40%
- Term deposits in EUR	-	0.01%
- Term deposits in EUR-RAMP	-0,42%	-

**Foreign currency deposits by type of entity**

	<b>2017</b>	<b>2016</b>
Central banks	20,452,076	7,310,193
Foreign commercial banks	1,862,010	8,565,021
International financial institutions	7,510	1,549
<b>Total</b>	<b>22,321,596</b>	<b>15,876,763</b>

**Foreign currency deposits by geographic location**

	<b>2017</b>	<b>2016</b>
Europe	13,918,456	12,080,958
the Americas	7,462,110	3,790,918
Asia	937,222	3,463
Australia	3,808	1,424
<b>Total</b>	<b>22,321,596</b>	<b>15,876,763</b>

**16. 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.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***16. Foreign securities (Continued)**

	<b>2017</b>	<b>2016</b>
<b>Trading securities</b>	<b>68,644,372</b>	<b>88,078,191</b>
Foreign debt securities	60,462,742	78,243,741
Foreign debt securities - RAMP	8,181,630	9,834,450
<b>Securities held to maturity</b>	<b>37,503,693</b>	<b>41,118,725</b>
Foreign debt securities held to maturity	37,503,693	41,118,725
<b>Securities available for sale</b>	<b>39,357</b>	<b>41,903</b>
Foreign unquoted equity securities	39,357	41,903
<b>Total</b>	<b>106,187,422</b>	<b>129,238,819</b>
Current	78,877,762	94,538,647
Non-current	27,309,660	34,700,172

The trading securities portfolio contains high quality debt securities. The investments in trading securities are marked to market and bear fixed and variable coupon interest at a rate ranging between 0% and 6% p.a. (2016: from 0.25% to 5.625% p.a.). Foreign trading securities include accrued interest of MKD 615,292 thousands (2016: MKD 715,521 thousand).

Investments in debt securities held for trading which are part of the RAMP program bear fixed and variable coupon interest at a rate ranging between 0% and 5% p.a. (2016: between 0.074% and 5.125% p.a.). These debt securities held for trading as part of the RAMP program include accrued interest in the amount of MKD 28,194 thousands (2016: MKD 35,476 thousands).

Securities held to maturity bear fixed income with interest at a rate ranging between 0.2% and 4.85% p.a. (2016: from 0.25% to 4.875% p.a.). Foreign securities held to maturity include accrued interest of MKD 228,659 thousand (2016: MKD 272,978 thousands).

Equity securities are composed of ordinary Bank for International Settlements (hereinafter: 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.

**17. Derivatives**

In September 2016, the National Bank of the Republic of Macedonia, through the World Bank RAMP and in October 2017 in the own portfolio, started entering into derivatives – interest rate futures and bond futures. Gains and losses from changes in fair value of futures transactions have been recognized in the income statement (Note 8).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***18. Gold**

	<b>2017</b>	<b>2016</b>
Sight gold deposits	1,358,516	1,373,655
Term gold deposits	13,338,028	13,559,339
Gold in the National Bank vault	26,822	27,279
<b>Total</b>	<b>14,723,366</b>	<b>14,960,273</b>
Current	14,723,366	14,960,273

As of 31 December 2017, the National Bank total gold reserves were 221,457.1047 ounces (2016: 221,163.8045 ounces) at a fair value of US Dollar 1,296.50 (MKD 66,474) per ounce (2016: US Dollar 1,159.10 or MKD 67,605 per ounce).

Interest rates on term gold deposits in 2017 ranged between 0.01% and 0.40% p.a. for gold deposits based on the price of gold in US Dollar (2016: interest rate between 0.02% and 0.71 % p.a.). As of 31 December 2017, term gold deposits include accrued interest of MKD 2,136 thousands (2016: MKD 8,398 thousands).

**19. 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 2017, the basic rate ranged from 0.244% to 0.747% p.a. (2016: from 0.05% to 0.273% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 43).

**20. Receivables from Government related to IMF**

	<b>2017</b>	<b>2016</b>
Receivable related to general and special net cumulative allocation	4,191,157	4,462,186
Receivable related to SDR allocation	613,514	653,188
<b>Total</b>	<b>4,804,671</b>	<b>5,115,374</b>
Current	4,804,671	5,115,374

Payables related to the general and special net cumulative allocation include funds that according to the Law on Regulating the Republic of Macedonia's Obligations to the IMF based on the Use of Funds from the General and Special Net Cumulative SDR Allocation, have been approved by a resolution of the Board of Governors of the IMF (Note 38a) and were given for use to the Republic of Macedonia.

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

#### **20. Receivables from Government related to IMF (Continued)**

The payable based on SDR allocation refers to the SDR allocation in the IMF resulting from the correspondent requirement for the Macedonian part of the liability to the IMF for SDR in accordance with the Law on Legal Inheritance of the Republic of Macedonia of the Membership in the IMF (Note 38a).

#### **21. Government securities**

	<b>2017</b>	<b>2016</b>
<b>Securities held to maturity</b>		
Bond for selective credits	969,662	940,221
<b>Total</b>	<b>969,662</b>	<b>940,221</b>
Non-current	969,662	940,221

The bond for selective credits held to maturity is a security issued on behalf of and for the account of the Republic of Macedonia, on the basis of the provisions of the 1995 Law on Restructuring and Rehabilitation of a Portion of the Banks in the Republic of Macedonia.

The bond for selective credits, which becomes fully due in April 2020, is in a nominal amount of MKD 1,039,318 thousands and is non-interest bearing. This bond is valued at fair value of the funds for which it was acquired and is amortized to the maturity of the bond.

#### **22. 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 also keeps records of the quota of the Republic of Macedonia for membership in the IMF on account no. 1 and account no. 2.

The quota of the Republic of Macedonia for membership in the IMF stands at MKD 10,863,264 thousand at the end of 2017, account no. 1 amounts to MKD 27,226 thousand and account no. 2 is valued at MKD 157 thousand (2016: MKD 10,774,776 thousands, MKD 27,004 thousands, and MKD 156 thousands respectively for the three positions). The differences are due to the evaluation of these positions at the SDR exchange rate as of 30 April 2017 and 2016, according to the IMF financial year (Note 38b).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***23. Loans to banks**

	<b>2017</b>	<b>2016</b>
Long-term loans from the conversion of the selective credits from 1996	15,912	15,912
<b>Total</b>	<b>15,912</b>	<b>15,912</b>
Non-current	15,912	15,912

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<sup>10</sup>. The loans converted in 1996 mature on 31 March 2020 and bear annual interest of 1.5%, payable semiannually.

**24. Other receivables**

	<b>2017</b>	<b>2016</b>
Receivables from bank under bankruptcy	755,220	755,220
Due auction deposits	8,268	8,268
<b>Total</b>	<b>763,488</b>	<b>763,488</b>
Impairment	(763,488)	(763,488)
<b>Total</b>	<b>-</b>	<b>-</b>

In January 2004, the National Bank paid out MKD 1,018,258 thousand to foreign banks on the basis of guarantees given for borrowings of one Macedonian bank from foreign banks, in accordance with the Decision on the criteria and the conditions for the use of a portion of the foreign reserves based on guarantees for borrowings of Macedonian banks from foreign banks, which ceased being valid in March 2003. The National Bank reflected a receivable from the domestic bank. Bankruptcy proceeding was initiated against the bank in March 2004. The National Bank had receivables 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 2015, the National Bank collected part of the receivable in the amount of MKD 217,004 thousand, from the bankruptcy estate of the domestic bank in bankruptcy. Also, the National Bank obtained assets (part of buildings and part of equipment) in the amount of MKD 62,345 thousand, (Note 30).

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.

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<sup>10</sup> Former Yugoslavia – Socialist Federal Republic of Yugoslavia

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***25. Non-current assets held for sale and disposal group**

	<b>2017</b>	<b>2016</b>
<b>Balance as at 1 January</b>	108,047	113,432
Impairment loss (Note 13)	(29,052)	(5,385)
Disposal	(78,995)	-
<b>Balance as at 31 December</b>	<b>-</b>	<b>108,047</b>

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 was reclassified from the category of property and equipment to the category of non-current assets held for sale and disposal group in January 2014.

The fair value of non-current asset held for sale is determined on the basis of estimate of the market value made by external certified appraiser. Fair value is estimated applying the Methodology for estimating market value of properties in the Republic of Macedonia. The difference between the estimated fair value and the carrying value of the asset as non-current assets held for sale, in the amount of MKD 29,052 thousand, is recorded as impairment loss (2016: MKD 5,385 thousands), (Note 13).

In August 2017, the National bank sold the non-current assets held for sale for MKD 78,995 thousand (MKD 93,214 thousand with VAT).



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

**Notes to the Financial Statements for the year ended 31 December 2017**

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

**26. 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
<b>On 1 January 2016</b>								
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)
<b>On 1 January 2016, net carrying amount</b>	<b>464,012</b>	<b>85,146</b>	<b>64,219</b>	<b>757</b>	<b>137,909</b>	<b>752,043</b>	<b>15,350</b>	<b>767,393</b>
Additions								
- Cost	1,015	37,056	-	1,736	193	40,000	-	40,000
Disposals and write-offs:								
- Cost	-	(2,366)	-	-	-	(2,366)	-	(2,366)
- Accumulated depreciation	-	2,361	-	-	-	2,361	-	2,361
Impairment of investments	-	-	-	-	(12,975)	(12,975)	-	(12,975)
Transfers								
- Cost	29	(197)	-	126	(155)	(197)	197	-
- Accumulated depreciation	-	197	-	-	-	197	(197)	-
Depreciation for the year	(26,664)	(28,544)	-	-	-	(55,208)	(648)	(55,856)
<b>On 31 December 2016</b>	<b>438,392</b>	<b>93,653</b>	<b>64,219</b>	<b>2,619</b>	<b>124,972</b>	<b>723,855</b>	<b>14,702</b>	<b>738,557</b>
<b>On 31 December 2016</b>								
Cost	807,206	553,778	64,219	2,619	124,972	1,552,794	34,326	1,587,120
Accumulated depreciation	(368,814)	(460,125)	-	-	-	(828,939)	(19,624)	(848,563)
<b>Net carrying amount</b>	<b>438,392</b>	<b>93,653</b>	<b>64,219</b>	<b>2,619</b>	<b>124,972</b>	<b>723,855</b>	<b>14,702</b>	<b>738,557</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

**Notes to the Financial Statements for the year ended 31 December 2017**

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

**26. Property and equipment (Continued)**

	Land and buildings	Furniture, equipment and vehicles	Works of art	Professional literature	Assets under construction	Total assets for business purposes	Property and equipment for entertainment purposes	Total
<b>On 1 January 2017</b>								
Cost	807,206	553,778	64,219	2,619	124,972	1,552,794	34,326	1,587,120
Accumulated depreciation	(368,814)	(460,125)	-	-	-	(828,939)	(19,624)	(848,563)
<b>On 1 January 2017, net carrying amount</b>	<b>438,392</b>	<b>93,653</b>	<b>64,219</b>	<b>2,619</b>	<b>124,972</b>	<b>723,855</b>	<b>14,702</b>	<b>738,557</b>
Additions								
- Cost	90	19,779	-	840	114,980	135,689	-	135,689
Disposals and write-offs:								
- Cost	-	(35,296)	-	-	-	(35,296)	(18)	(35,314)
- Accumulated depreciation	-	35,007	-	-	-	35,007	18	35,025
Transfers								
- Cost	-	(162)	-	145	(145)	(162)	162	-
- Accumulated depreciation	-	162	-	-	-	162	(162)	-
Depreciation for the year	(26,298)	(34,191)	-	-	-	(60,489)	(643)	(61,132)
<b>On 31 December 2017</b>	<b>412,184</b>	<b>78,952</b>	<b>64,219</b>	<b>3,604</b>	<b>239,807</b>	<b>798,766</b>	<b>14,059</b>	<b>812,825</b>
<b>On 31 December 2017</b>								
Cost	807,296	538,099	64,219	3,604	239,807	1,653,025	34,470	1,687,495
Accumulated depreciation	(395,112)	(459,147)	-	-	-	(854,259)	(20,411)	(874,670)
<b>Net carrying amount</b>	<b>412,184</b>	<b>78,952</b>	<b>64,219</b>	<b>3,604</b>	<b>239,807</b>	<b>798,766</b>	<b>14,059</b>	<b>812,825</b>

Property and equipment for entertainment purposes consist of 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, but the ownership has not been transferred yet, and consequently, the assets have not been recorded in the National Bank books. The National Bank made capital improvements shown as a part of assets under construction. In 2016, the National Bank Council made several decisions allowing the National Bank to rent the facilities it received from the POB to public and private institutions. Since the buildings are no longer used for the purpose for which they were taken over, in 2016, the National Bank recorded an impairment of MKD 12,975 thousand (Note 13) on capital improvements shown as part of assets under construction.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***26. Property and equipment (Continued)**

In 2013, the Government of the Republic of Macedonia made a decision to give the National Bank a right of permanent use of land owned by the Republic of Macedonia with purpose of building the new business premises. The land is not recorded in the books of the National Bank. During 2017 the National Bank made investments in assets under construction related to the new business premises in the amount MKD 114,977 thousand (Note 44b).

As at 31 of December 2017 and 2016, the National Bank has no pledged property and equipment.

**27. Intangible assets**

	2017	2016
<b>At 1 January</b>		
Cost	208,537	195,322
Assets under construction	5,488	5,555
Accumulated amortization	(187,794)	(174,428)
<b>Net carrying amount</b>	<b>26,231</b>	<b>26,449</b>
Additions		
-Cost	23,421	13,215
Amortization charge	(11,932)	(13,366)
Assets under construction	-	(67)
<b>At 31 December</b>	<b>37,720</b>	<b>26,231</b>
<b>At 31 December</b>		
Cost	231,958	208,537
Assets under construction	5,488	5,488
Accumulated amortization	(199,726)	(187,794)
<b>Net carrying amount</b>	<b>37,720</b>	<b>26,231</b>

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

#### **28. 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 of the Republic of Macedonia, were manufactured for the purposes of celebrating jubilees relevant to the country. In April 2015, the Government of the Republic of Macedonia made a decision to convert part of the gold jubilee coins into monetary gold. In October 2016, the National Bank melted 6,651 gold coins with an aim of getting monetary gold.

As at 31 December 2017, the National Bank held a total of 186 gold coins and 27 silver coins (2016: 187 gold coins and 27 silver coins).

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. In 2016, the National Bank started selling collector coins through commission. As at 31 December 2017, the National Bank held a stock of 579 pieces of collector coins (2016: 612 pieces).

#### **29. Operating receivables**

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

	<b>2017</b>	<b>2016</b>
Fees	33,222	32,454
Receivables for maintenance of premises	2,384	2,293
Other receivables	404,520	405,436
Impairment of other receivables	(404,520)	(405,436)
<b>Total</b>	<b>35,606</b>	<b>34,747</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***29. Operating receivables (Continued)**

The movements in impairment of other receivables are as follows:

	<b>2017</b>	<b>2016</b>
<b>Balance as at 1 January</b>	<b>405,436</b>	<b>405,355</b>
(Release)/Increase of impairment of operating receivables (Note 13)	(917)	69
(Release)/Increase of impairment of interest income (Note 13)	(5)	5
Increase of doubtful receivables	6	7
<b>Balance as at 31 December</b>	<b>404,520</b>	<b>405,436</b>

**30. Other assets**

	<b>2017</b>	<b>2016</b>
Office and other materials	27,251	61,974
Prepaid expenses for printing banknotes	155,224	188,266
Other accrued expenses	2,053	4,256
Other assets	160,252	601
Foreclosed assets for uncollected receivables (Note 24)	44,897	62,345
Impairment on foreclosed assets for uncollected receivables (Note 24)	(44,897)	(62,345)
<b>Total</b>	<b>344,780</b>	<b>255,097</b>
Current	317,529	193,123
Non-current	27,251	61,974

Other assets are prepaid advances in accordance with the contracts related with the new office building and for procurement of banknotes.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***31. Currency in circulation**

Currency in circulation comprises the following:

MKD	Nominal value	2017		2016	
		Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Currency in circulation					
Banknotes	10	19,688,586	196,886	23,098,587	230,986
Banknotes	50	2,612,075	130,605	2,992,385	149,619
Banknotes	100	14,881,629	1,488,163	15,414,045	1,541,405
Banknotes	200	1,238,332	247,666	124,643	24,929
Banknotes	500	9,123,808	4,561,904	10,447,080	5,223,540
Banknotes	1000	23,768,823	23,768,823	25,598,903	25,598,903
Banknotes	2000	2,243,111	4,486,222	182,228	364,456
Coins	1	97,406,472	97,407	93,013,433	93,013
Coins	2	62,112,598	124,225	59,910,469	119,821
Coins	5	34,535,477	172,677	34,004,011	170,020
Coins	10	44,192,942	441,929	36,408,109	364,081
Coins	50	9,383,884	469,194	8,285,355	414,268
<b>Total currency in circulation (legal means of payment)</b>			<b>36,185,701</b>		<b>34,295,041</b>
<b>Currency in circulation - Collector coins</b>					
Coins	10	69,758	698	66,413	664
Coins	100	62,275	6,227	42,271	4,227
Coins	1000	547	547	547	547
Coins	2000	25	50	-	-
<b>Total currency in circulation – Collector coins</b>			<b>7,522</b>		<b>5,438</b>
<b>Currency in circulation – Not a legal means of payment</b>					
Coins	0.5	3,950,442	1,975	3,944,438	1,972
Banknotes	5000	4,133	20,665	25,518	127,590
<b>Total currency in circulation – Not a legal means of payment</b>			<b>22,640</b>		<b>129,562</b>
<b>Total currency in circulation</b>			<b>36,215,863</b>		<b>34,430,041</b>

In December 2016, the National Bank put into circulation new banknotes in denominations of 200 and 2000 Denars. Also, in December 2016, the National Bank made a decision according to which the banknotes in denomination of 5000 Denars are no longer considered a legal tender.

**32. Bank deposits**

	2017	2016
Bank deposits in MKD	20,054,193	17,791,545
Bank deposit facilities in MKD with the National Bank	10,872,687	13,305,638
Bank deposit in foreign currency	-	4,580,889
Bank deposit in foreign currency RTGS - EUR	1,914,071	
<b>Total</b>	<b>32,840,951</b>	<b>35,678,072</b>
Current	32,840,951	35,678,072

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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

#### **32. Bank deposits (Continued)**

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 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.

The interest rate on overnight deposit was 0.25% p.a. in 2017 (2016: 0.25% p.a). The interest rate on 7-day deposit was 0.50% p.a. (2016: 0.50% p.a). Seven-day deposit include accrued interest of MKD 687 thousand (2016: MKD 638 thousands).

In May 2016, the National Bank made a decision to reactivate the placement of banks' foreign currency deposits with the National Bank, which allows banks to place foreign currency deposits with the central bank. In October 2016, the National Bank discontinued accepting these deposits. As of 31 December 2017 the accrued interest from foreign currency deposits in the bank is zero MKD (2016: MKD 539 thousand). In 2017 accounts in Euros for settlement purposes of domestic banks were opened in RTGS in connection to TARGET 2 Euro payment system.

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

	<b>2017</b>	<b>2016</b>
Banks' foreign exchange reserve requirement	14,073,254	14,078,656
Savings houses' MKD reserve requirement	21,245	21,612
<b>Total</b>	<b>14,094,499</b>	<b>14,100,268</b>
Current	14,094,499	14,100,268

As specified by the regulations, the banks are obliged to fulfill the reserve requirement in both MKD and in foreign currency, while the savings houses are obliged to fulfill the MKD reserve requirement. The reserve requirement of the savings houses is fulfilled at a fixed level.

#### **34. National Bank bills issued**

In 2017, the National Bank used a tender with limited volume and fixed interest rate. The interest rate in January 2017 was 3.5%, whilst in the period February-December 2017 it was 3.25% p.a (2016: the National Bank used a tender with limited volume and fixed interest rate which in the period January – April 2016 was 3.25%, in the period May – November 2016 was 4%, whilst in December 2016, it was 3.75% p.a).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***34. National Bank bills issued (Continued)**

As of 31 December 2017, the accrued interest on National Bank bills amounted to MKD 40,498 thousand (2016: MKD 40,585 thousand).

The cash flow for the National Bank bills is as follows:

	2017	2016
<b>As of 1 of January</b>	<b>22,973,701</b>	<b>25,045,631</b>
National Bank bills, inflows	322,130,000	273,241,000
National Bank bills, outflows	(320,130,000)	(275,316,000)
Discount	3,772	3,070
<b>As of 31 of December</b>	<b>24,977,473</b>	<b>22,973,701</b>

**35. 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.

	2017	2016
Single Treasury account	15,510,642	13,178,051
Other MKD deposits	841,425	777,101
<b>Total</b>	<b>16,352,067</b>	<b>13,955,152</b>
Current	16,352,067	13,955,152

In 2017, the interest paid by the National Bank on these deposits was calculated at an interest rate of 0.25 % p.a. (2016: 1% p.a.). Government deposits include the accrued interest in the amount of MKD 1,292 thousands (2016: MKD 10,289 thousand). Since January 2017, the National Bank has been paying interest on government deposits in accordance with the Decision on calculating and payment of interest on Government deposits.

**36. Government foreign currency deposits**

As specified by the Law on the National Bank of the Republic of Macedonia and the Law on the Foreign Exchange Operations, 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 2017, these deposits amounted to MKD 7,982,657 thousand (2016: MKD 21,662,311 thousand). In 2017, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0 % p.a. (2016: 0.7% p.a.). Since January 2017, in accordance with the Decision on calculating and payment of interest on Government deposits, the interest rates on foreign currency deposits have been tied with the ECB deposit facilities rate (Note 35).



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

### **Notes to the Financial Statements for the year ended 31 December 2017**

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

#### **37. 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 2017, the balance of the restricted deposits was MKD 1,875,226 thousands (2016: MKD 562,320 thousands).

#### **38. Payables to IMF**

Payables to IMF comprise liabilities on the basis of net cumulative allocation, 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 2017 amounted to SDR 65,616,876 (2016: 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, and interest on general and special allocation paid from the Budget of the Republic of Macedonia.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***38. Payables to IMF (Continued)**

b) Payables based on membership and deposits (Note 22):

	<b>2017</b>	<b>2016</b>
Liabilities based on issued promissory note for membership in the IMF	10,863,264	10,774,776
Liabilities based on account 1	27,226	27,004
Liabilities based on account 2	157	156
<b>Total</b>	<b>10,890,647</b>	<b>10,801,936</b>
Current	10,890,647	10,801,936

Resolution 66-2 Fourteenth General Review of Quotas and Reform of the Executive Board, adopted on 15 December 2010 by the Board of Governors of the IMF entered into force in February 2016, which proposed increasing the quotas for each IMF member country. According to the resolution, the quota of the Republic of

Macedonia for IMF membership in 2016 increased from 68.9 million Special Drawing Rights (SDR) to 140.3 million Special Drawing Rights (SDR). The National Bank, as a fiscal agent of the Republic of Macedonia, has issued promissory notes for membership in the IMF.

**39. Other deposits**

	<b>2017</b>	<b>2016</b>
Liabilities based on MKD deposits to other domestic entities	600,148	1,141,549
Liabilities based on MKD deposits to international financial institutions	4,241	10,998
<b>Total</b>	<b>604,389</b>	<b>1,152,547</b>
Current	604,389	1,152,547

Liabilities based on MKD deposits to other domestic entities comprise client accounts of brokerage houses and banks, the Central Securities Depository account, and the Deposit Insurance Fund account. The brokerage houses client accounts and the Central Securities Depository account are settlement accounts arising from securities transactions. The National Bank does not pay any interest on these deposits.

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 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***40. Other payables**

Payables are analyzed as follows:

	<b>2017</b>	<b>2016</b>
Liabilities based on BNT bankruptcy	144,913	144,937
Payables on allocation of net income	12,921	63,900
Payables on annuities received from sale of socially-owned flats	2,511	-
Tax liabilities	8,899	1,471
Other payables – long term employee benefits	31,413	26,831
<b>Total</b>	<b>200,657</b>	<b>237,139</b>

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.

The liability for long-term employee 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 annual weighted interest rate of 3.21% on bonds issued by the Republic of Macedonia during 2017 (2016: 3.85%).

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 currency 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.

## NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

### Notes to the Financial Statements for the year ended 31 December 2017

(Amounts expressed in thousands of MKD unless otherwise stated)

#### 41. Other liabilities

	2017	2016
Deposited funds from confiscated foreign currencies and deposited guarantees	360,173	392,984
Jubilee coins counterpart	4,314	4,402
Liabilities to suppliers and other liabilities	23,346	101,452
Deferred income	8,758	5,487
<b>Total</b>	<b>396,591</b>	<b>504,325</b>

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.

#### 42. Capital and reserves

##### *Capital*

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2017, it amounted to MKD 1,289,789 thousand (2016: 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<sup>11</sup>, 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<sup>12</sup>, 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 account for building of new business premises.

	2017	2016
General reserves	1,311,586	1,309,305
Special reserves	481,426	445,956

<sup>11</sup> Defined as revaluation reserve accounts in the Law on the National Bank of the Republic of Macedonia

<sup>12</sup> 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 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***42. Capital and reserves (Continued)***Other reserves*

	<b>2017</b>	<b>2016</b>
Other reserves from unrealized price and exchange rate differences		
- Other reserves from foreign exchange gains	1,121,549	7,492,842
- Other reserves from price and exchange rate differences of gold	6,163,295	6,939,255
- Other reserves from price differences of securities held for trading and derivatives	12,251	116,891
<b>Total</b>	<b>7,297,095</b>	<b>14,548,988</b>

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 2017 are decreased by MKD 6,371,293 thousand (2016: increase of MKD 677,558 thousand increased on the basis of net unrealized positive foreign exchange differences).

Other reserves from price and exchange rate differences of gold for 2017 are decreased by MKD 775,960 thousands from which:

- MKD 330,298 thousand as a result of the allocation of the net unrealized negative price and foreign exchange differences of gold (2016: increase of MKD 1,615,498 thousand as a result of the allocation of the net unrealized positive price and foreign exchange differences of gold);
- MKD 445,662 thousands as a result of realized exchange rate and price differences from transactions in gold during 2017, which were added to the distributable earnings in the current 2017 (2016: MKD 672,432 thousand).

Other reserves from price differences of securities and derivatives held for trading for 2017 are decreased on a net basis by MKD 104,640 thousands from which:

- Decrease on the basis of realized price differences from securities in the amount of MKD 111,733 thousand that were added to the distributable earnings for the current 2017 (2016: decrease of MKD 8,013 thousand).
- Decrease of MKD 2,137 thousand as a result of realized price differences of derivatives-futures contracts that were added to the distributable earnings for the current 2017 (2016: MKD 0).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2017***(Amounts expressed in thousands of MKD unless otherwise stated)***42. Capital and reserves (Continued)***Other reserves (Continued)*

- Decrease of MKD 3,021 thousand as a result of settling unrealized negative price differences of securities held for trading (2016: MKD 0).
- Increase on the basis of allocation of the net unrealized positive price differences of securities held for trading on security-by-security basis in the amount of MKD 7,047 thousand (2016: MKD 65,113 thousand).
- Increase on the basis of allocation of the net unrealized positive price differences of the derivative financial instruments - futures in amount of MKD 5,204 thousands (2016: MKD 2,137 thousand).

Other reserves from art works and library fund as of 31 of December 2017 amounted to MKD 3,683 thousand (2016: MKD 3,071 thousand). The increase in other reserves of MKD 612 thousand is a result of the books donated to the National Bank's library fund.

**43. Cash and cash equivalents**

	<b>2017</b>	<b>2016</b>
Foreign currencies (Note 14)	216,605	361,946
Foreign currency deposits (Note 15)	22,321,596	14,647,053
Special Drawing Rights (Note 19)	253,633	291,521
<b>Total</b>	<b>22,791,834</b>	<b>15,300,520</b>

**44. Contingencies and commitments****a) Litigations**

The National Bank is a defendant in several legal proceedings arising from its operations. On 31 December 2017 the litigations were assessed at MKD thousand 123,666 (2016: MKD thousand 136). The National Bank contests these claims and based on legal advice considers that no significant material liabilities will be incurred.

The National Bank has not allocated provisions, since the management believes that the final outcome of this litigation will be resolved in favor of the National Bank and that no material losses in respect of these disputes will arise.

**b) Commitments**

In October 2016, the National Bank concluded a contract for construction works on the new office building. On 31 December 2017 the National bank has a commitments in amount of MKD 1,245,473 thousand (2016: MKD 1,477,332 thousand), which are expected to be settled in the next 2 to 3 years.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

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**Notes to the Financial Statements for the year ended 31 December 2017**

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

**45. 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, 11, 20, 21, 35, 36 and 40.

**46. 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.