

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

**Independent Auditor's Report and
Financial Statements prepared in accordance with
International Financial Reporting Standards
For the year ended 31 December 2019**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the National Bank of the Republic of North Macedonia ("the National Bank"), which comprise the statement of financial position as at December 31, 2019, 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 North Macedonia as at December 31, 2019, 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 North 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)

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INDEPENDENT AUDITOR'S REPORT

To the Council of the National Bank of the Republic of North 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.

Lidija Nanus
Certified auditor
Director



February 27, 2020

Deloitte DOO Skopje
Bul. Partizanski Odredi 15A, Skopje



Aleksandar Arizanov
Certified auditor

GENERAL INFORMATION

Members of the National Bank of the Republic of North Macedonia Council

Anita Angelovska- Bezhoska, Governor
Fadil Bajrami, Vice Governor (until 13 September 2019)
Fadil Bajrami, Vice Governor (since 14 September 2019)
Emilija Nacevska, Vice Governor
Ana Mitreska, Vice Governor
Aleksandar Stojkov, non-executive member
Metodij Hadzi Vaskov, non-executive member
Mihail Petkovski, non-executive member
Sinisa Naumovski, non-executive member
Liman Kurtisi, non-executive member (until 4 December 2019)
Gadaf Redjepi, non-executive member (since 23 December 2019)

Registered office

Blvd. Kuzman Josifovski Pitu 1
1000, Skopje

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***INCOME STATEMENT**

	Note	2019	2018
Interest income		368,985	285,651
Interest expense		(649,060)	(799,226)
Effects of negative interest rates		28,137	(21,496)
Net interest expense	5	(251,938)	(535,071)
Fee income		314,212	308,039
Fee expense		(28,784)	(40,389)
Net fee income	6	285,428	267,650
Net unrealized price and exchange rate differences	7	3,141,214	561,348
Net result from securities at fair value through profit and loss and derivatives	8	181,593	(491,036)
Net realized price and exchange rate differences	9	505,657	488,539
Dividend income	10	7,944	7,511
Other income	11	29,026	25,254
Personnel expenses	12	(428,365)	(433,044)
Depreciation and amortization charge	26,27	(73,837)	(70,269)
Other expenses	13	(205,304)	(238,215)
Released impairment	14	6,032	4,582
Gain/Loss for the year, net		3,197,450	(412,751)

STATEMENT OF COMPREHENSIVE INCOME

	2019	2018
Gain/Loss for the year from the Income statement, net	3,197,450	(412,751)
Other comprehensive income		
- Gains on received books donations - library fund	55	255
Other comprehensive income for the year	55	255
Total comprehensive gain/loss for the year	3,197,505	(412,496)

The notes on pages 9 to 71 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	As at 31 December	
		2019	2018
Foreign currencies	15	52,442	132,874
Foreign currency deposits	16	26,936,716	23,825,660
Foreign securities	17	154,932,221	136,944,576
Derivatives	18	-	-
Gold	19	18,567,450	15,246,957
Special Drawing Rights	20	171,857	217,871
Receivables from Government related to IMF	21	4,990,485	4,899,081
Government securities	22	1,031,338	1,000,024
Receivables from Government		6,021,823	5,899,105
IMF Membership	23	10,748,642	10,279,290
Loans to banks	24	15,912	15,912
Other receivables	25	-	-
Receivables from banks		15,912	15,912
Property and equipment	26	1,011,158	913,919
Intangible assets	27	22,465	29,921
Coins from precious metals	28	5,235	4,426
Operating receivables	29	42,944	43,229
Other assets	30	215,144	316,395
Total assets		218,744,009	193,870,135

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION (Continued)**

LIABILITIES AND EQUITY	Note	As at 31 December	
		2019	2018
Currency in circulation	31	43,334,119	39,835,161
Bank deposits	32	65,070,209	43,200,539
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	33	16,372,913	15,649,050
National Bank bills issued	34	24,745,813	24,972,267
Government MKD deposits	35	23,673,549	22,283,839
Government foreign currency deposits	36	13,613,528	19,897,777
Government deposits		37,287,077	42,181,616
Restricted deposits	37	260,404	258,021
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	38a	4,990,485	4,899,081
Payables based on membership and deposits	38b	10,748,642	10,279,290
Payables to IMF	38	15,739,127	15,178,371
Other deposits	39	2,249,892	2,073,406
Other liabilities	40	571,792	578,218
Total liabilities		205,631,346	183,926,649
Capital		1,289,789	1,289,789
General reserves		1,321,000	1,316,002
Special reserves		627,877	550,114
Other reserves		9,873,997	6,787,581
Total capital and reserves	41	13,112,663	9,943,486
Total liabilities and equity		218,744,009	193,870,135

The notes on pages 9 to 71 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Financial Statements for the year ended 31 December 2019

(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY								
	Note	Capital	General reserves	Special reserves*	Other Reserves**	Art works revaluation and library fund	Accumulated gain/loss	Total capital and reserves
As at 1 January 2018		1,289,789	1,311,586	481,426	7,297,095	3,683	-	10,383,579
Effects of IFRS 9 applied on 1 January 2018		-	-	-	-	-	(2,575)	(2,575)
As at 1 January 2018		1,289,789	1,311,586	481,426	7,297,095	3,683	(2,575)	10,381,004
Loss for the year		-	-	-	-	-	(412,751)	(412,751)
Gains on received books donations - library fund		-	-	-	-	255	-	255
Total comprehensive loss for 2018		-	-	-	-	255	(412,751)	(412,496)
Net unrealized positive price and exchange rate differences of gold	41	-	-	-	528,432	-	(528,432)	-
Net unrealized positive foreign exchange rate differences	41	-	-	-	32,916	-	(32,916)	-
Net unrealized positive price differences of securities and derivatives	41	-	-	-	87,631	-	(87,631)	-
Net unrealized negative price differences of securities covered by revaluation reserves	41	-	-	-	(332)	-	332	-
Realized price and exchange rate differences of gold	41	-	-	-	(1,151,236)	-	1,151,236	-
Realized price differences of securities and derivatives	41	-	-	-	(10,863)	-	10,863	-
Transfer to general reserves		-	4,416	-	-	-	(4,416)	-
Transfer to the special reserves		-	-	68,688	-	-	(68,688)	-
Transfer to the Budget of the Republic of North Macedonia		-	-	-	-	-	(25,022)	(25,022)
As at 31 December 2018		1,289,789	1,316,002	550,114	6,783,643	3,938	-	9,943,486
As at 1 January 2019		1,289,789	1,316,002	550,114	6,783,643	3,938	-	9,943,486
Gain for the year		-	-	-	-	-	3,197,450	3,197,450
Gains on received books donations - library fund		-	-	-	-	55	-	55
Total comprehensive gain for 2019		-	-	-	-	55	3,197,450	3,197,505
Net unrealized positive price and exchange rate differences of gold	41	-	-	-	3,246,087	-	(3,246,087)	-
Net unrealized negative foreign exchange rate differences	41	-	-	-	(104,873)	-	104,873	-
Net unrealized positive price differences of securities	41	-	-	-	98,500	-	(98,500)	-
Net unrealized negative price differences of securities covered by revaluation reserves	41	-	-	-	(53)	-	53	-
Realized price and exchange rate differences of gold	41	-	-	-	(112,353)	-	112,353	-
Realized price differences of securities and derivatives	41	-	-	-	(40,947)	-	40,947	-
Transfer to general reserves		-	4,998	-	-	-	(4,998)	-
Transfer to the special reserves		-	-	77,763	-	-	(77,763)	-
Transfer to the Budget of the Republic of North Macedonia		-	-	-	-	-	(28,328)	(28,328)
As at 31 December 2019		1,289,789	1,321,000	627,877	9,870,004	3,993	-	13,112,663

**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 71 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)*

STATEMENT OF CASH FLOWS			
	Note	2019	2018
Cash flow from operating activities			
Gain/Loss for the year		3,197,450	(412,751)
Adjusted for:			
Interest income	5	(368,985)	(285,651)
Interest expense	5	649,060	799,226
Effects of negative interest rates	5	(28,137)	21,496
Net unrealized price and exchange rate differences of gold		(3,298,989)	(511,826)
Net income from securities at fair value through profit and loss and derivatives		(49,035)	(113,890)
Dividends		(7,944)	(7,511)
Released impairment		(6,032)	(4,582)
Depreciation and amortization charge	26,27	73,837	70,269
Cash flows from operating activities, before changes in operating assets and liabilities			
		161,225	(445,220)
Term deposits over 90 days		4,612,662	(4,612,125)
Gold		(21,504)	(11,688)
Foreign securities		(17,908,692)	(30,718,088)
Other assets		103,063	34,623
Currency in circulation		3,498,958	3,619,298
Bank deposits		21,871,035	10,362,577
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		723,863	1,554,551
Government deposits, including restricted and other deposits		(4,715,670)	17,699,221
Other liabilities		(9,732)	(33,706)
Interest received		309,800	317,247
Interest paid		(616,377)	(825,778)
Dividends received		7,944	7,511
Net cash flows from/(used for) operating activities			
		8,016,575	(3,051,577)
Acquisition of property, equipment and intangible assets		(163,565)	(163,309)
Net cash flows used in investing activities			
		(163,565)	(163,309)
National Bank bills, inflows		298,344,000	299,803,000
National Bank bills, outflows		(298,575,000)	(299,803,000)
Net income paid to the Budget of the Republic of North Macedonia		(25,022)	(12,921)
Net cash flows from used for financing activities			
		(256,022)	(12,921)
Net increase/decrease in cash and cash equivalents		7,596,988	(3,227,807)
Cash and cash equivalents at the beginning of the year			
		19,564,027	22,791,834
Cash and cash equivalents at the end of the year			
	42	27,161,015	19,564,027

1. General information

The National Bank of the Republic of North Macedonia (hereinafter referred to as: the National Bank) is the central bank of the Republic of North 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, No. 6/16 dated 15 January 2016 and No. 83/18 dated 8 May 2018. 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 North 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 North 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 North 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 North Macedonia, to the President of the Republic of North Macedonia, and to the Prime Minister of the Republic of North Macedonia.

The capital of the National Bank is owned by the Republic of North 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.

1. General information (Continued)

The distributable earnings are allocated to the general reserve account and to the Budget of the Republic of North 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 North 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 of the remaining 70% to be allocated to general reserves until reaching the level of core capital i.e. 15% after reaching the level of core capital and the residual in the Budget of the Republic of North Macedonia. If the National Bank reports 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's assets falls below the sum of its liabilities and capital, the shortage will be covered by the Government of the Republic of North Macedonia with cash or negotiable debt instruments with a specified maturity issued at market interest rates prevailing in the Republic of North Macedonia.

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

The total number of employees as of 31 December 2019 is 440 (as of 31 December 2018: 446).

The financial statements were adopted by the National Bank Council on 26 February 2020 and signed by the chairperson of the National Bank Council on its behalf:


Anita Angelovska Bezhoska,
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. 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) Initial application of new amendments to the existing standards effective for the current reporting period

The following new standards, amendments to the existing standards and interpretation issued by IASB, are effective for the current reporting period:

- **IFRS 16 "Leases" (IFRS 16).** In January 2016, the IASB issued the new IFRS 16 standard that provides a comprehensive model for identifying the lease and its treatment in the financial statements of both parties. IFRS 16 replaces IAS 17 "Leases" and related interpretations. It introduces significant changes to lessee accounting i.e. the distinction between operating and finance lease is removed and the right-of-use assets and a lease liabilities at commencement for all leases (except for short-term leases and leases of low value assets) must be recognized in the lessee financial reports. Right-of-use assets are treated as other types of non-financial assets and are subject to depreciation. Under IFRS 16, the requirements for lessor accounting have remained largely unchanged. Related to financial statements of the National Bank, the application of IFRS 16 caused a change in the accounting policies of the bank in the recognition and measurement of the effects of applying the standard when the National Bank acts as a lessee. The accounting policy for leases is defined in note O.

Under the first time adoption of IFRS 16, the National Bank has used the amended retrospective approach, with no restatement of the comparative period. Instead of, the cumulative effect of first time adoption of IFRS 16 is presented as a right-of-use asset and a lease liability which at the date of initial application (01 January 2019) are recognized in the same amount.

The National Bank has a long-term real estate lease agreement used for performing part of its current activities. This agreement was previously classified in accordance with the requirements of IAS 17 as an operating lease agreement. In accordance with the requirements of the new IFRS 16 the effects of this lease agreement are recognized as long-term lease assets (right-of-use asset) and lease

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

a) Initial application of new amendments to the existing standards effective for the current reporting period (Continued)

liabilities, recognized at the date of initial application, adjusted for the previously matured and paid lease liabilities.

Effects of IFRS 16 are presented in the table below:

	Note	As at 31 December 2018	As at 1 January 2019	As at 31 December 2019
<i>Property and equipment</i>	26			
Right-of-use assets		-	4,554	3,612
<i>Other payables</i>	40			
Lease liabilities		-	4,554	3,640

- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** – Long – term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

Adoption of the new standards, amendments to the existing standards and interpretation has not led to any material changes in the National Bank’s financial statements.

b) New accounting standards, amendments to existing standards not yet adopted

At the date of authorization of these financial statements, the following new standards, amendments to existing standards and new interpretation were issued, but not yet effective:

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

b) New accounting standards, amendments to existing standards not yet adopted (Continued)

- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020);

The National Bank has decided not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates. The National Bank anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the National Bank in the period of initial application.

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 functional and presentation currency, rounded to thousands of denars.

Transactions and balances

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

All exchange rate differences are recognized in the income statement.

Middle exchange rate:	31 December 2019	31 December 2018
	MKD	MKD
USD	54.9518	53.6887
EUR	61.4856	61.495
SDR	76.0549	74.6619

C Offsetting

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

D Sale and repurchase agreements

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

The difference between sale and repurchase price is treated as interest and it is accrued over the life of the agreements using the effective interest method. If there are any securities lent to counterparties, as at the year end, they are presented in the financial statements.

2. Summary of significant accounting policies (Continued)

D Sale and repurchase agreements (Continued)

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, less impairment (see Note 2J).

E Deposits with banks

Deposits with banks are stated at amortized cost, 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.

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.

2. Summary of significant accounting policies (Continued)

H Financial assets

Classification and measurement of financial assets

The National Bank classifies its financial assets in three categories as follows: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit and loss. The National Bank determines the classification of the financial assets depending on the business model and the contractual cash flows expected from them.

The business model represents the way of managing financial assets in order to generate cash inflows or achieve a particular business goal. The strategic management of the bank determines the business model at the level of groups of financial assets that are managed to achieve a specific business goal.

Analyses of the contractual cash flows characteristics of the financial assets are applied on the level of an individual financial instrument (contractual conditions) in order to verify whether the contractual cash flows from the assets are used solely for "principal and interest" payment. Within the contractual cash flows, the "principal" element covers the amount at the initial approval, less all repayments; and the "interest" element represents compensation for the time value of money, credit risk, liquidity risk, administrative or service costs, and profitable margin.

The National Bank manages the financial assets through the following business models:

- Business model whose objective is to hold assets in order to collect the contractual cash flows;
- Other business models (trading and gaining profit from the change in the fair value of assets) and
- Business model whose objective is achieved by both collecting contractual cash flows and/or selling financial assets (only for investments in equity instruments).

Financial assets measured at amortized cost

Financial assets measured at amortized cost are investments that are aimed at collection of contractual cash flows and from which the bank expects to receive solely "principal and interest". This category includes debt securities measured at amortized cost and loans and receivables with fixed or predictable payments that are not quoted in active markets.

2. Summary of significant accounting policies (Continued)

H Financial assets (Continued)

Classification and measurement of financial assets (Continued)

Financial assets measured at amortized cost (Continued)

Debt securities measured at amortized cost, after initial recognition, are subsequently carried at amortized cost less impairment. The amortized cost is equal to the amount at initial recognition, less the repayment of principal, increased or reduced by cumulative depreciation using the effective interest method of all differences between the initial amount and the maturity amount.

Loans and receivables arise from activities where the National Bank provides money to a debtor with no intention of trading. Loans are recognized when cash is approved to the debtor and are carried at amortized cost using the principle of effective interest rate. Effective foreign currency, foreign currency deposits, special drawing rights, receivables from the government for relations with the IMF, receivables from banks, and other receivables are classified in this category of financial assets.

For the financial assets measured at amortized cost an expected credit lost is calculated (Note J).

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are investments in order to collect contractual cash flows and/or are held for sale and which, according to the contractual terms, foresee cash flows exclusively to "principal and interest". Securities in this category are recognized at fair value and changes in fair value are recognized as a separate component of other comprehensive income and are recognized in equity and reserves within revaluation reserve accounts. In the case of disposal or impairment on the basis of recognition of impairment, the cumulative gains and losses stated in other comprehensive income and allocated to equity and reserves are included in the income statement.

For investments in equities of specific financial institutions (such as BIS, etc.) for which there is no active market and whose ownership is specified by regulation and/or is related to the possibility of using the services provided by these institutions, it may be considered that their cost value reflects their fair value. These investments are classified as financial assets measured at fair value through other comprehensive income.

2. Summary of significant accounting policies (Continued)

H Financial assets (Continued)

Classification and measurement of financial assets (Continued)

Financial assets at fair value through profit and loss

Financial assets measured at fair value through profit and loss are investments for the purpose of their trading and gaining profit from changes in the fair value of these instruments and those securities that do not meet the criteria of the other two categories. These debt securities and financial derivatives are valued at fair value and the fair value changes are included in the income statement.

Initial recognition

All financial assets are initially recognized at cost, i.e. the fair value of the assets at the time of their acquisition, including all costs that are an integral part of the effective interest rate (except for financial derivatives and securities at fair value through profit and loss for which all costs are recognized in the income statement).

Reclassification of debt assets from one category to another is only possible if a business model of asset management changes. The reclassifications are expected to be rare and to be made when the change in the business model has a significant impact on the bank's business, the change is due to changes in external or internal factors that have a significant influence on the bank's activities, etc.

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

Credit risk exposure for financial assets measured at amortized cost (deposits with foreign banks, debt securities, receivables, loans and advances) is assessed on a regular basis and the amount of expected credit losses is determined. Expected credit loss is also determined for financial assets measured at fair value through other comprehensive income.

For investments in equity instruments measured at fair value through other comprehensive income, no measurement of expected credit loss is made.

Expected credit loss is an amount equal to the difference between the contractual cash flows of the financial asset and the present value of the expected cash flows of the financial asset discounted using the effective interest rate established at the initial recognition of the asset.

2. Summary of significant accounting policies (Continued)

J Impairment and uncollectibility of financial assets (Continued)

At the reporting date for the financial assets, the credit risk is assessed, as well as whether a significant change in the credit risk from their initial recognition has occurred. Based on these criteria, assets are classified at one of the three stages of credit risk. For each financial asset measured at amortized cost or at fair value through other comprehensive income, an amount of impairment is determined, appropriate for the stage of credit risk in which the asset is classified.

Stage 1: expected credit loss - 12 months

For the financial assets that record no significant increase in the credit risk from the initial recognition and have low credit risk at the reporting date, the expected credit loss shall be recognized which is a part of the loss for the entire economic life of assets that would arise from the probability of occurrence of a harmful event in the next 12 months.

Stage 2: expected credit loss for the entire economic life of the asset - no objective evidence of impairment (credit losses)

For the financial assets that record a significant increase in the credit risk from the initial recognition, but are not credit impaired, the expected credit loss for the entire remaining economic life of the assets is recognized.

Stage 3: expected credit loss for the entire economic life of the asset – there is objective evidence of impairment (credit losses)

Financial assets are considered credit impaired as a result of one or more events that have a detrimental effect on the estimated future cash flows of the assets.

Default risk is deemed to arise from a delay of more than 90 days and the bank classifies those financial assets into stage 3. These receivables are recorded in the accounts for doubtful and contested receivables. Impairment is recognized for all receivables recorded in the accounting records arising therefrom (receivables for principal debt, interest, penalty interest, other receivables, etc.).

Expected credit loss is a product of the exposure to issuer/counterparty in the event of default, a loss that would be incurred in the event of default and the probability of default, discounted by the effective interest rate established at the initial recognition.

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.

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

Non - current assets or disposal groups held for sale are qualified as such only if their accounting value is expected to be offset through sales rather than through constant 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.

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:

	2019	2018
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 Leases (right-of-use assets (leased assets) and lease liabilities)

Right-of-use assets (leased assets) are initially measured at their cost on the date of the lease contract, which is equal to the opening balance of the lease liabilities increased for the lease payments made before or at the date of the lease contract and any directly related costs of the contract. Subsequently, the right-of-use assets are measured at initial carrying amount less any accumulated depreciation/amortization and impairment losses, and adjusted for certain remeasurements of the lease liability. Lease liabilities are initially recognized at the present value of the future lease payments, discounted using the rate implicit in the lease. If the rate is not specified in the contract, an incremental borrowing rate shall be used based on the annual interest rate prevailing on the long-term securities market issued by the Republic of North Macedonia, with maturity equal to or nearest to the agreed lease term. Subsequently, the lease liability is increased for lease interest expense, decreased for the lease payments made and it is adjusted for remeasurement of the amount expected to be paid or due to a change in future lease payments.

Depreciation is calculated using the straight-line method based on the contractual life of the leased asset, and the effects are recognized in the profit and loss statement. The effects of interest expense on the lease are recognized in the profit and loss statement where the expense is distributed over the entire life of the lease.

Lease payments for short-term leases with a lease term of 12 months or less and leases of low value assets, are recognized as operating expense in the profit and loss statement during the lease term.

P 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.

2. Summary of significant accounting policies (Continued)

Q 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 has mints jubilee coins for commemorative anniversaries, based on Decisions of the Government. Jubilee coins are valued at a sale price as set by the National Bank Council.

Collector coins are legal tender in the Republic of North 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.

R 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.

S 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.

T 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.

U Deposits

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

2. Summary of significant accounting policies (Continued)

V 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.

W 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.

X Recognition of income and expense

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except interest on securities at fair value through profit and loss, are recognized in the income statement on an accrual basis using the effective interest method.

Dividend income

Dividends on financial assets at fair value through other comprehensive income 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 financial assets at fair value through profit and loss and derivatives

Net income from securities at fair value through profit and loss 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 securities at fair value through profit and loss (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.

Y 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.

2. Summary of significant accounting policies (Continued)

Z Employment benefits

Pension insurance contribution - defined contributions plan

Liabilities for defined pension insurance contributions in the pension system of the Republic of North 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 our country in the current financial year.

AA Taxation

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

According to the applicable property tax regulations, 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.

AB Segment reporting

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

3. Financial risk management

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

A Credit risk

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, regional and local governments, 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 (Standard & Poor's, Moody's and/or Fitch). If credit ratings differ, a composite rating (weighted average rating) is used.

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.

From 1 January 2018, the IFRS 9 standard required the National Bank to determine the amount of the expected credit loss on the basis of the estimated probability, as the difference between cash flows arising under the terms of the agreement of the financial instrument and the cash flows that the National Bank expects to receive.

The expected credit loss is measured against the default risk, depending on whether the credit risk of the issuer/counterparty is significantly increased from the initial recognition of the exposure. The impairment of the exposures in which the credit risk

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

is not significantly increased (Stage 1) is based on the expected credit loss for 12 months. The impairment of those exposures that have undergone a significant increase of credit risk (Stage 2 and Stage 3) is based on expected credit loss for the entire economic life of the financial asset. Significant increase in credit risk is considered to have occurred if the instrument, issuer, or counterparty migrates from investment to non-investment credit rating. Financial instruments whose cash flows are delayed from 30 to 90 days also migrate to Stage 2 and Stage 3, respectively, depending on the delay, unless the delay is based on operational considerations.

The expected credit loss calculated on the basis of the exposure to the issuer/counterparty, the estimated loss in the event of default of the contractual obligation and the probability of default within a specified period of time, adjusted for the expected macroeconomic scenarios. The percentage of the loss is conditional upon the priority of the receivables (preference/senior or subordinated), and the probability of default results from the historical data on the change in credit ratings announced by internationally recognized credit rating agencies. The adjustments apply to the probability of default on the basis of a linear regression of the financial system stability indicator, measured by the rate of non-performing bank loans, as ratios for economic adjustment of multiple macroeconomic indicators.

Comparative rating scale	Long-term credit rating
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 credit rating exposure is the average credit rating of the financial assets, obtained from the ratings awarded by the international credit rating agencies Standard and Poor's, Moody's and/or Fitch. This manner of presentation is appropriate to the approach in the determining and the daily monitoring of the credit risk exposure in the foreign reserves management, and is prescribed by the Foreign Reserves Management and Investment Regulation, adopted by the Governor.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

The table below presents the structure of financial assets:

ASSETS	2019	2018
Foreign currency deposits		
- Current accounts	21,950,219	18,844,333
- Term deposits	4,986,497	4,981,327
Foreign securities	154,932,221	136,944,576
Gold deposits	18,533,680	15,219,192
Special Drawing Rights	171,857	217,871
Receivables from Government related to IMF	4,990,485	4,899,081
Government securities	1,031,338	1,000,024
Receivables from banks	15,912	15,912
Operating receivables and other assets	159,226	162,794
As at 31 December	206,771,435	182,285,110

The analysis of the structure of financial instruments of the National Bank indicates that there are no significant changes compared to 2018. The impairment of the exposure of the financial instruments is within Stage 1, with no movements from one stage of exposure to another.

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.

The table below presents an analysis of the financial assets that are not past due, but impaired (for financial instrument valued at amortized cost), by rating agency designation as at 31 December 2019, based on the average credit rating of the financial assets obtained from the ratings awarded by the international rating agencies Standard and Poor's, Moody's and/or Fitch:

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

Credit rating	Current accounts	Term deposits	Foreign securities	Gold deposits	Special Drawing Rights	Receivables from the Government	Receivables from banks	Operating receivables and other assets	Total
AAA	13,498,770	-	28,119,094	-	-	-	-	-	41,617,864
AA+	1,843,799	-	25,602,885	-	-	-	-	-	27,446,684
AA	1,188,003	-	15,406,401	1,286,356	-	-	-	-	17,880,760
AA-	2,774,607	827,121	18,877,714	10,949,125	-	-	-	-	33,428,567
A+	23,563	851,828	20,834,878	6,283,921	-	-	-	-	27,994,190
A	7,187	3,307,548	13,731,899	-	-	-	-	-	17,046,634
A-	1,104	-	16,561,206	-	-	-	-	-	16,562,310
II ¹	2,010	-	40,880	14,278	171,857	-	-	-	229,025
BBB+	9,244	-	-	-	-	-	-	-	9,244
BBB	2,601,932	-	15,757,264	-	-	-	-	-	18,359,196
BB ²	-	-	-	-	-	6,021,823	-	-	6,021,823
Unrated ³	-	-	-	-	-	-	15,912	159,226	175,138
Total	21,950,219	4,986,497	154,932,221	18,533,680	171,857	6,021,823	15,912	159,226	206,771,435

Financial assets which are individually impaired as at 31 December 2019 are presented in "Term deposits" (Note 16), "Foreign securities" (Note 17), "Other receivables" (Note 25) and "Operating receivables" (Note 29).

The table below presents an analysis of the financial assets that are neither past due, but impaired, by rating agency designation as at 31 December 2018, based on the average credit rating of the financial assets obtained from the ratings awarded by the international rating agencies Standard and Poor's, Moody's and/or Fitch:

¹ International Institutions

² Rating of the Republic of North Macedonia

³ Clients in the country that do not have a credit rating according to the internationally recognized credit rating agencies „Standard & Poor's", „Moody's" and/or „Fitch"

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

Credit rating	Current accounts	Term deposits	Foreign securities	Gold deposits	Special Drawing Rights	Receivables from the Government	Receivables from banks	Operating receivables and other assets	Total
AAA	14,307,009	-	20,024,805	-	-	-	-	-	34,331,814
AA+	-	-	21,954,690	-	-	-	-	-	21,954,690
AA	1,179,581	-	16,514,813	1,058,173	-	-	-	-	18,752,567
AA-	934,075	368,949	13,567,149	-	-	-	-	-	14,870,173
A+	12,370	-	15,510,065	14,149,280	-	-	-	-	29,671,715
A	47,367	4,612,378	12,872,517	-	-	-	-	-	17,532,262
A-	8,096	-	20,256,073	-	-	-	-	-	20,264,169
II ⁴	2,001	-	40,131	11,739	217,871	-	-	-	271,742
BBB	2,353,834	-	15,610,829	-	-	-	-	-	17,964,663
BBB-	-	-	593,504	-	-	-	-	-	593,504
BB- ⁵	-	-	-	-	-	5,899,105	-	-	5,899,105
Unrated ⁶	-	-	-	-	-	-	15,912	162,794	178,706
Total	18,844,333	4,981,327	136,944,576	15,219,192	217,871	5,899,105	15,912	162,794	182,285,110

Financial assets which are individually impaired as at 31 December 2018 are presented in "Term deposits" (Note 16), "Foreign securities" (Note 17), "Other receivables" (Note 25) and "Operating receivables" (Note 29).

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the National Bank's credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2019. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

⁴ International Institutions

⁵ Rating of the Republic of North Macedonia

⁶ Clients in the country that do not have a credit rating according to the internationally recognized credit rating agencies „Standard & Poor's", „Moody's" and/or „Fitch"

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

	EU Countries	Non-EU member countries	Republic of North Macedonia	Other OECD countries	Other countries	Total
Current accounts	16,580,366	103,295	-	2,499,253	2,767,305	21,950,219
Term deposits	4,159,376	-	-	-	827,121	4,986,497
Foreign securities	128,869,685	3,816,545	-	10,190,400	12,055,591	154,932,221
Gold deposits	15,997,794	14,279	-	2,521,607	-	18,533,680
Special Drawing Rights	-	-	-	171,857	-	171,857
Receivables from Government	-	-	6,021,823	-	-	6,021,823
Receivables from banks	-	-	15,912	-	-	15,912
Operating receivables and other assets	-	-	159,226	-	-	159,226
31 December 2019	165,607,221	3,934,119	6,196,961	15,383,117	15,650,017	206,771,435
31 December 2018	133,847,753	2,501,323	6,077,811	19,598,425	20,259,798	182,285,110

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 an adjusted duration for the portfolios which is monitored on a daily basis. Additionally, the market risk is also controllable by allocating risk budget which defines an acceptable level of interest rate risk for the foreign reserves.

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 horizon⁷, and 99% and a 10-day horizon⁸.

In December 2019, 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 1,037,795 thousand (Euro 16,874,721), or 0.5% 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 903,890 thousand (Euro 14,697,409), while VAR from the change in the prices of instruments in which the foreign reserves are invested totals MKD 133,905 thousands (Euro 2,177,312).

	31 December 2019	31 December 2018
Currency risk	903,890	605,382
Interest rate risk	133,905	125,079
Total VAR	1,037,795	730,461

⁷ For internal assessment of the set budget for risk

⁸ As recommended in the Basel Agreement from 1999

3. Financial risk management (Continued)

C Foreign exchange risk

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 exposure to active currency risk (arising from the deviation from the basic currency structure) is limited by the level of revaluation reserves from foreign exchange differences. 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 2019 and 31 December 2018, analyzed by currency.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2019:

ASSETS	EUR	USD	SDR	Other	MKD	Total
Foreign currencies	21,476	17,897	-	13,069	-	52,442
Foreign currency deposits	19,335,669	7,465,296	-	135,751	-	26,936,716
Foreign securities	149,403,531	5,487,810	40,880	-	-	154,932,221
Gold	-	18,567,450	-	-	-	18,567,450
Special Drawing Rights	-	-	171,857	-	-	171,857
Receivables from Government	-	-	4,990,485	-	1,031,338	6,021,823
IMF Membership Receivables from banks	-	-	10,748,642	-	-	10,748,642
Operating receivables and other assets	-	-	-	-	15,912	15,912
	7,702	2	6,488	11,312	133,722	159,226
Total assets	168,768,378	31,538,455	15,958,352	160,132	1,180,972	217,606,289
LIABILITIES						
Currency in circulation	-	-	-	-	43,334,119	43,334,119
Bank deposits	2,591,348	-	-	-	62,478,861	65,070,209
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	16,352,971	-	-	-	19,942	16,372,913
National Bank Bills issued	-	-	-	-	24,745,813	24,745,813
Government deposits	13,587,793	20,646	-	5,088	23,673,550	37,287,077
Restricted deposits	187,334	73,070	-	-	-	260,404
Payables to IMF	-	-	15,739,127	-	-	15,739,127
Other deposits	-	-	-	-	2,249,892	2,249,892
Other liabilities	249,689	17,111	6,488	32,064	256,065	561,417
Total liabilities	32,969,135	110,827	15,745,615	37,152	156,758,242	205,620,971
Net financial position	135,799,243	31,427,628	212,737	122,980	(155,577,270)	11,985,318

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2018:

ASSETS	EUR	USD	SDR	Other	MKD	Total
Foreign currencies	91,423	29,051	-	12,400	-	132,874
Foreign currency deposits	18,509,140	5,272,635	-	43,885	-	23,825,660
Foreign securities	130,275,843	6,628,602	40,131	-	-	136,944,576
Gold	-	15,246,957	-	-	-	15,246,957
Special Drawing Rights	-	-	217,871	-	-	217,871
Receivables from Government	-	-	4,899,081	-	1,000,024	5,899,105
IMF Membership Receivables from banks	-	-	10,279,290	-	-	10,279,290
Operating receivables and other assets	278	4	8,789	10,968	142,755	162,794
Total assets	148,876,684	27,177,249	15,445,162	67,253	1,158,691	192,725,039
LIABILITIES						
Currency in circulation	-	-	-	-	39,835,161	39,835,161
Bank deposits Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	961,473	-	-	-	42,239,066	43,200,539
National Bank Bills issued	15,628,817	-	-	-	20,233	15,649,050
Government deposits	-	-	-	-	24,972,267	24,972,267
Restricted deposits	19,791,595	77,955	-	28,227	22,283,839	42,181,616
Payables to IMF	175,685	82,336	-	-	-	258,021
Other deposits	-	-	15,178,371	-	-	15,178,371
Other liabilities	-	-	-	-	2,073,406	2,073,406
	264,690	17,121	8,789	37,049	243,608	571,257
Total liabilities	36,822,260	177,412	15,187,160	65,276	131,667,580	183,919,688
Net financial position	112,054,424	26,999,837	258,002	1,977	(130,508,889)	8,805,351

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 related to the foreign reserves management, 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 2019 and 31 December 2018 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 NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2019:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
ASSETS							
Foreign currencies	-	-	-	-	-	52,442	52,442
Foreign currency deposits	24,452,396	2,472,810	-	-	-	11,510	26,936,716
Foreign securities	-	1,668,515	99,017,818	8,952,432	15,558,938	29,734,518	154,932,221
Gold	12,153,649	-	5,073,607	-	-	1,340,194	18,567,450
Special drawing rights	171,857	-	-	-	-	-	171,857
Receivables from Government	-	-	1,031,338	-	-	4,990,485	6,021,823
IMF Membership Receivables from banks	-	-	-	-	-	10,748,642	10,748,642
Operating receivables and other assets	-	15,912	-	-	-	-	15,912
	-	-	-	-	-	159,226	159,226
Total assets	36,777,902	4,157,237	105,122,763	8,952,432	15,558,938	47,037,017	217,606,289
LIABILITIES							
Currency in circulation	-	-	-	-	-	43,334,119	43,334,119
Bank deposits Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	32,190,348	-	-	-	-	32,879,861	65,070,209
National Bank Bills issued	16,352,971	-	-	-	-	19,942	16,372,913
Government deposits	24,714,930	-	-	-	-	30,883	24,745,813
Restricted deposits	6,000,000	-	-	-	-	31,287,077	37,287,077
Payables to IMF	-	-	-	-	-	260,404	260,404
Other deposits	-	-	-	-	-	15,739,127	15,739,127
Other liabilities	-	-	-	-	-	2,249,892	2,249,892
	-	-	-	-	-	561,417	561,417
Total liabilities	79,258,249	-	-	-	-	126,362,722	205,620,971
Total interest rate risk	(42,480,347)	4,157,237	105,122,763	8,952,432	15,558,938	(79,325,705)	11,985,318

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2018:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years		
ASSETS							
Foreign currencies	-	-	-	-	-	132,874	132,874
Foreign currency deposits	19,202,132	-	4,611,792	-	-	11,736	23,825,660
Foreign securities	805,830	376,188	77,072,267	14,613,920	17,696,561	26,379,810	136,944,576
Gold	2,752,786	10,360,758	1,033,522	-	-	1,099,891	15,246,957
Special drawing rights	217,871	-	-	-	-	-	217,871
Receivables from Government	-	-	-	1,000,024	-	4,899,081	5,899,105
IMF Membership	-	-	-	-	-	10,279,290	10,279,290
Receivables from banks	-	-	-	15,912	-	-	15,912
Operating receivables and other assets	-	-	-	-	-	162,794	162,794
Total assets	22,978,619	10,736,946	82,717,581	15,629,856	17,696,561	42,965,476	192,725,039
LIABILITIES							
Currency in circulation	-	-	-	-	-	39,835,161	39,835,161
Bank deposits	15,137,473	-	-	-	-	28,063,066	43,200,539
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	15,628,817	-	-	-	-	20,233	15,649,050
National Bank Bills issued	24,939,375	-	-	-	-	32,892	24,972,267
Government deposits	6,000,000	-	-	-	-	36,181,616	42,181,616
Restricted deposits	-	-	-	-	-	258,021	258,021
Payables to IMF	-	-	-	-	-	15,178,371	15,178,371
Other deposits	-	-	-	-	-	2,073,406	2,073,406
Other liabilities	-	-	-	-	-	571,257	571,257
Total liabilities	61,705,665	-	-	-	-	122,214,023	183,919,688
Total interest rate risk	(38,727,046)	10,736,946	82,717,581	15,629,856	17,696,561	(79,248,547)	8,805,351

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 Foreign Reserves Management and Investment Policy and Regulation, liquidity risk management is consistent with the best global practices. Consequently, in order to optimize the foreign reserves management, while taking into account the different commitments and purposes of the foreign reserves in different time periods, the foreign reserves are allocated in portfolios: working capital (operational portfolio), liquidity and investment portfolios. 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 NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2019
(Amounts expressed in thousands of MKD unless otherwise stated)
3. Financial risk management (Continued)
E Liquidity risk (Continued)

31 December 2019	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
LIABILITIES						
Currency in circulation	43,334,119	-	-	-	-	43,334,119
Bank deposits	40,817,631	-	24,252,578	-	-	65,070,209
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	(5,021)	-	16,377,934	-	-	16,372,913
National Bank Bills issued	24,745,813	-	-	-	-	24,745,813
Government deposits	37,287,077	-	-	-	-	37,287,077
Restricted deposits	199,241	18,701	42,462	-	-	260,404
Payables to IMF	15,739,127	-	-	-	-	15,739,127
Other deposits	2,249,892	-	-	-	-	2,249,892
Other liabilities	497,756	28,328	35,333	-	-	561,417
Total liabilities (contractual maturity dates)	164,865,635	47,029	40,708,307	-	-	205,620,971
Assets held for managing liquidity risk (expected maturity dates)	182,400,582	1,707,880	8,733,117	9,039,469	15,725,241	217,606,289

31 December 2018	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
LIABILITIES						
Currency in circulation	39,835,161	-	-	-	-	39,835,161
Bank deposits	20,940,332	-	22,260,207	-	-	43,200,539
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	(3,656)	-	15,652,706	-	-	15,649,050
National Bank Bills issued	24,972,267	-	-	-	-	24,972,267
Government deposits	42,181,616	-	-	-	-	42,181,616
Restricted deposits	238,859	12,022	7,140	-	-	258,021
Payables to IMF	15,178,371	-	-	-	-	15,178,371
Other deposits	2,073,406	-	-	-	-	2,073,406
Other liabilities	510,386	25,022	35,849	-	-	571,257
Total liabilities (contractual maturity dates)	145,926,742	37,044	37,955,902	-	-	183,919,688
Assets held for managing liquidity risk (expected maturity dates)	148,660,664	993,076	9,435,363	15,759,970	17,875,966	192,725,039

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(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 transaction 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	
	2019	2018	2019	2018
Financial assets				
<i>Carried at amortized cost</i>				
Foreign currencies	52,442	132,874	52,442	132,874
Foreign currency deposits	26,936,716	23,825,660	26,936,716	23,825,660
Special Drawing Rights	171,857	217,871	171,857	217,871
Receivable from Government related to IMF	4,990,485	4,899,081	4,990,485	4,899,081
IMF Membership	10,748,642	10,279,290	10,748,642	10,279,290
Receivables from banks	15,912	15,912	15,912	15,912
Operating receivables and other assets	159,226	162,794	159,226	162,794
Foreign debt securities	32,016,260	39,208,472	32,575,935	39,138,535
Government securities	1,031,338	1,000,024	1,031,338	1,000,024
	76,122,878	79,741,978	76,682,553	79,672,041
<i>Securities at fair value through other comprehensive income</i>				
Foreign equity securities	40,880	40,131	40,880	40,131
	40,880	40,131	40,880	40,131

	Carrying value		Fair value	
	2019	2018	2019	2018
Financial liabilities				
<i>Carried at amortized cost</i>				
Currency in circulation	43,334,119	39,835,161	43,334,119	39,835,161
Bank deposits	65,070,209	43,200,539	65,070,209	43,200,539
Reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD	16,372,913	15,649,050	16,372,913	15,649,050
National Bank bills issued	24,745,813	24,972,267	24,745,813	24,972,267
Government MKD deposits	23,673,549	22,283,839	23,673,549	22,283,839
Government foreign currency deposits	13,613,528	19,897,777	13,613,528	19,897,777
Payables to IMF	15,739,127	15,178,371	15,739,127	15,178,371
Other and restricted deposits	2,510,296	2,331,427	2,510,296	2,331,427
Other liabilities	561,417	571,257	561,417	571,257
	205,620,971	183,919,688	205,620,971	183,919,688

3. Financial risk management (Continued)

F Fair value of financial assets and liabilities (Continued)

Financial assets

The fair value of cash foreign currencies, foreign currency deposits, Special Drawing Rights, IMF Membership and receivables carried at amortized cost, are considered to approximate their carrying values due to their short-term nature.

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.

The fair value of foreign debt securities at amortized cost is based on their quoted market prices, at the date of the Statement of Financial Position.

Government securities include bonds issued by our country 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.

As explained in Note 17, securities at fair value through other comprehensive income include Bank for International Settlement (BIS) shares with a value of MKD 40,880 thousand (2018: MKD 40,131 thousand), and are carried at cost which is considered to present their fair value. However, due to the specific role of BIS, fair value of these shares is considered to approximate 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 NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019**

(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.

Financial assets measured at fair value through income statement

31 December 2019	Level 1	Level 2	Level 3	Total
Foreign debt securities	122,875,081	-	-	122,875,081
Gold	18,567,450	-	-	18,567,450
Total financial assets	141,442,531	-	-	141,442,531

31 December 2018	Level 1	Level 2	Level 3	Total
Foreign debt securities	97,695,973	-	-	97,695,973
Gold	15,246,957	-	-	15,246,957
Total financial assets	112,942,930	-	-	112,942,930

4. Critical accounting estimates and judgments in applying accounting policies

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

Classification of financial assets

The National Bank determines the classification of the financial assets depending on the business model and the expected contractual cash flows (see note 2H).

The National Bank uses estimates and judgments in determining the business model for managing financial assets. The assessment is not based on one factor or one activity, but takes into account all relevant evidence available on the date of establishing the business model. The National Bank also uses estimates and judgments for managing financial assets in terms of cash flows. The business model determines whether the cash flows will originate from inflows of contractual cash flows, sale of a financial asset or both of them. Subsequently, this estimate is not carried out on the basis of scenarios that the entity does not expect to occur, such as worst case or stress test scenarios.

In deciding whether the cash flows will originate from the collection of contractual cash flows, it is necessary to take into account the frequency, the value and the dynamics of sales in previous periods, the reasons for sale, as well as the expectations for future sales. When determining a business model whose purpose is fulfilled by collecting contractual cash flows and by selling financial assets, consideration is given to managing liquidity, maintaining a predetermined interest yield or aligning the maturity of the financial assets with the maturity of the liabilities used for financing. When determining other business models, the National Bank is primarily targeted at fair value information and uses such information to assess the assets performance and make decisions.

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 North 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

4. Critical accounting estimates and judgments in applying accounting policies (Continued)

Fair value of financial instruments (Continued)

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 value reduction. 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 costs for the Bank depend on the occurrence of future events and especially on the discount rate changes and increase of the payments as well. 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 2Z and 40).

Impairment of financial assets

Since 1 January 2018, the National Bank calculates the expected credit losses for financial assets valued at amortized cost. The determination of the input to the model for measuring the expected loan losses is described in Note 3A.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***5. Net interest expense****Interest income**

Interest income	Government	Domestic banks	Foreign entities	Other entities	Total	
					2019	2018
Deposits and current accounts in foreign currency	-	-	152,592	-	152,592	51,346
Securities at amortized cost	31,313	-	146,900	-	178,213	199,125
Gold deposits	-	-	15,419	-	15,419	18,066
Reverse repos in foreign currency	-	-	18,971	-	18,971	13,502
Other interest	20	3,769	-	1	3,790	3,612
Total 2019	31,333	3,769	333,882	1	368,985	285,651
Total 2018	30,402	3,563	251,676	10	285,651	

Interest expense

Interest expenses	Government	Domestic banks	Foreign entities	Other entities	Total	
					2019	2018
Deposits	9,125	43,052	-	-	52,177	43,387
National Bank bills	-	578,615	-	-	578,615	743,322
Repos transactions in foreign currency	-	-	18,202	-	18,202	12,517
Interest for long term right-of-use assets	-	-	-	66	66	-
Total 2019	9,125	621,667	18,202	66	649,060	799,226
Total 2018	10,325	776,384	12,517	-	799,226	

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***5. Net interest expense (Continued)****Effects of negative interest rates**

Effects of negative interest rates	Domestic banks	Foreign entities	Total	
			2019	2018
Deposits and current accounts in foreign currency	-	(55,650)	(55,650)	(39,176)
Reserve requirement of banks in foreign currency	75,429	-	75,429	9,174
Repos in foreign currency	-	60,010	60,010	59,105
Reverse repos in foreign currency	-	(51,652)	(51,652)	(50,599)
Total 2019	75,429	(47,292)	28,137	(21,496)
Total 2018	9,174	(30,670)	(21,496)	

6. Net fee income**Fee income**

	2019	2018
Fees from domestic banks for maintaining account based on debt turnover on an account	140,032	130,972
Fees from providing cash to banks	86,867	87,251
Fees based on settlement of payments (RTGS)	35,401	36,780
Fees from foreign exchange operations with public sector	26,239	24,767
Other fees	25,673	28,269
Total	314,212	308,039

The amount of the fees that National Bank charges are regulated with the Decision on the single tariff that the National Bank 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 debt turnover on an account, providing cash to banks and settlement of payments through RTGS⁹ 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.

⁹ RTGS is Macedonian Interbank Payment System (MIPS), owned by the National Bank

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***6. Net fee income (Continued)****Fee expense**

	2019	2018
Fees for services received from foreign banks	18,158	22,401
Fees for Securities Depositories	9,497	8,336
Fees for futures	1,104	9,417
Other fees	25	235
Total	28,784	40,389

Fees paid to foreign banks refer to maintenance of services for the National Bank's accounts, transactions performed with the National Bank's 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 – advisory program¹⁰ and expenses paid to the foreign banks and custodians for securities maintenance.

7. Net unrealized price and exchange rate differences

	2019	2018
Unrealized positive exchange rate differences	2,445,048	2,574,269
Unrealized negative exchange rate differences	(2,549,921)	(2,541,353)
Unrealized positive price and exchange rate differences from gold	14,847,807	9,821,232
Unrealized negative price and exchange rate differences from gold	(11,601,720)	(9,292,800)
Total	3,141,214	561,348

¹⁰ In June 2014, the National Bank became part of the RAMP – Reserve Advisory Management Program by the World Bank. As of 1 October 2019, the National Bank changed the program for cooperation with the World Bank, which does not include management of the part of the foreign reserves portfolio.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***8. Net result from securities at fair value through profit and loss and derivatives**

	2019	2018
Realized gains from securities at fair value through profit and loss	92,407	90,269
Realized losses from securities at fair value through profit and loss	(134,731)	(100,174)
Unrealized positive price differences from securities at fair value through profit and loss	98,500	82,297
Unrealized negative price differences from securities at fair value through profit and loss	(1,399,080)	(1,213,630)
Interest income from securities at fair value through profit and loss	1,534,925	1,327,187
Total net gain from securities at fair value through profit and loss	192,021	185,949
Realized gains from futures	29,983	127,622
Realized losses from futures	(40,411)	(460,446)
Unrealized positive price differences from futures	-	5,335
Unrealized negative price differences from futures	-	(31,410)
Realized gains from forwards	-	10,021
Realized losses from forwards	-	(328,107)
Total net loss from derivatives	(10,428)	(676,985)
Total net result from securities at fair value through profit and loss and derivatives	181,593	(491,036)

The net gain from securities at fair value through profit and loss and derivatives includes net gain incurred from the RAMP program with the World Bank in the amount of MKD 22,031 thousand in 2019 (2018: net loss of MKD 26,411 thousand).

9. Net realized price and exchange rate differences

	2019	2018
Realized positive exchange rate differences from arbitration with foreign banks, net	383,430	448,600
Realized positive exchange rate and price differences on other basis, net	122,227	39,939
Total	505,657	488,539

The net realized positive exchange rate differences from arbitration with foreign banks and exchange rate and price differences on other bases 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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***10. Dividend income**

	2019	2018
Dividend income on investments in BIS	7,944	7,511
Total	7,944	7,511

11. Other income

	2019	2018
Revenue from automatic securities lending	6,338	704
Royalty income from collector coins	940	3,598
Revenue from sale of collector coins	462	1,660
Income on other basis	21,286	19,292
Total	29,026	25,254

12. Personnel expenses

	2019	2018
Wages and personal income tax	302,385	305,208
Pension cost – defined contribution plans	76,752	75,434
Mandatory contributions	37,959	37,717
Other personnel expenses	11,269	14,685
Total	428,365	433,044

In 2019, the remuneration of the key management of the National Bank was MKD 14,911 thousand (2017: MKD 11,992 thousand), included in "Personnel expenses" above. Personnel expenses are related to short term employee benefits.

13. Other expenses

	2019	2018
Costs of production of banknotes and coins	98,054	120,907
Costs for services received	67,254	66,393
Material expenses	20,870	21,507
Other administrative expenses	17,022	22,644
Collector coins expenses	1,127	4,068
Expenses on other basis	977	2,696
Total	205,304	238,215

The costs of banknote and coin manufacture mainly relate to purchased 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 4 years.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***14. Released impairment**

	Note	2019	2018
(Released) impairment of other receivables	25	(3,000)	(14,230)
Charged impairment on foreign securities	17	213	9,541
(Released) impairment on foreign securities	17	(3,625)	(994)
Charged impairment of operating receivables	29	320	439
Charged impairment of receivables from fees and commissions	29	344	308
Charged impairment on term deposits	16	49	333
(Released) impairment on term deposits	16	(333)	(1)
Total (released) impairment of financial assets		(6,032)	(4,604)
Charged impairment of professional literature	26	-	22
Total impairment of non-financial assets		-	22
Total		(6,032)	(4,582)

15. Foreign currencies

Foreign currencies include cash and checks in foreign currency, held in the National Bank's vault. Foreign currencies are included in cash equivalents for the purposes of the cash flow statement (Note 42).

16. Foreign currency deposits

	2019	2018
Foreign currency sight deposits	21,950,219	18,827,436
Foreign assets placed at World Bank – RAMP	-	16,897
Foreign currency term deposits placed at World Bank-RAMP	-	368,949
Foreign currency term deposits at foreign banks	4,986,497	-
Included in the cash and cash equivalents (Note 42)	26,936,716	19,213,282
Foreign currency term deposits over 90 days	-	4,612,378
Total	26,936,716	23,825,660

Term deposits at foreign banks include accrued interest in amount of MKD 13,408 thousand (31 December 2018: MKD 586 thousand).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***16. Foreign currency deposits (Continued)**

As at 31 December 2019, the impairment of term deposits was MKD 49 thousand (31 December 2018: MKD 333 thousand). The movement of the impairment of term deposits is shown in the table below:

	Note	2019	2018
Balance as at 1 January		333	1
Increase of impairment on term deposits in foreign currency	14	49	333
(Released) impairment on term deposits in foreign currency	14	(333)	(1)
Balance as at 31 December		49	333

The deposits bear annual interest at rates contingent upon the deposit currency and during 2019 and 2018 have the following values for the respective deposits:

Interest rate type	2019	2018
- Overnight deposits in USD	2.14%	1.81%
- Euro overnight deposits	-0.45%	-0.4041%
- Term deposits in USD	2.34%	1.58%
- Term deposits in EUR	0.06%	0.07%
- Term deposits in EUR-RAMP	-0.5%	-0.47%

Foreign currency deposits by entity type

	2019	2018
Central banks	19,050,435	17,814,136
Foreign commercial banks	7,884,272	6,009,523
International financial institutions	2,009	2,001
Total	26,936,716	23,825,660

Foreign currency deposits by geographic location

	2019	2018
Europe	20,843,036	13,005,702
Asia	3,617,822	5,554,032
the Americas	2,475,858	5,265,926
Total	26,936,716	23,825,660

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***17. Foreign securities**

The National Bank has investments in foreign debt securities and foreign equity securities. The investments in foreign debt securities are classified as securities at fair value through profit and loss and securities at amortized cost.

	2019	2018
Securities at fair value through profit and loss	122,875,081	97,695,973
Foreign debt securities	122,875,081	89,213,966
Foreign debt securities - RAMP	-	8,482,007
Securities at amortized cost	32,016,260	39,208,472
Foreign debt securities at amortized cost	32,016,260	39,208,472
Securities at fair value through other comprehensive income	40,880	40,131
Foreign unquoted equity instruments	40,880	40,131
Total	154,932,221	136,944,576
Current	130,379,971	104,593,964
Non-current	24,552,250	32,350,612

The portfolio of the securities at fair value through profit and loss contains high quality debt securities. The investments in securities at fair value through profit and loss are aligned with the fair value and bear fixed coupon interest at a rate ranging between 0% and 6% p.a. (2018: from 0% to 6% p.a.). Foreign securities at fair value through profit and loss include accrued interest in the amount of MKD 869.699 thousand (2018: MKD 684,389 thousand).

As of 31 December 2019, the National Bank has no investments in securities at fair value through profit and loss within the RAMP program (2018: fixed coupon interest at a rate ranging between 0,125% and 5% p.a. and accrued interest in the amount of MKD 41,061 thousand).

Securities at amortized cost bear fixed income with interest at a rate ranging between 0.2% and 5.5% p.a. (2018: from 0.2% to 5.5% p.a.). Foreign securities at amortized cost include accrued interest in the amount of MKD 268,430 thousand (2018: MKD 294,936 thousand).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2019

(Amounts expressed in thousands of MKD unless otherwise stated)

17. Foreign securities (Continued)

As at 31 December 2019, the impairment of securities at amortized cost amounted to MKD 7,714 thousand (31 December 2018: MKD 11,121 thousand). The movement of the impairment of securities at amortized cost is shown in the table below:

	Note	2019	2018
Balance as at 1 January		11,121	2,574
Increase of impairment on securities at amortized cost	14	213	9,541
(Released) impairment on securities at amortized cost	14	(3,625)	(994)
Effect of unrealized foreign exchange rate differences		5	-
Balance as at 31 December		7,714	11,121

Equities are composed of 430 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. Therefore, it is considered that their cost reflects their fair value.

18. Derivatives

The National Bank enters into derivatives - interest rate futures and bond futures within a portfolio managed by the World Bank, as well as in its own portfolio. As of 31 December 2019 the National Bank has no open futures positions.

Gains and losses from changes in fair value of futures and forwards have been recognized in the income statement (Note 8).

19. Gold

	2019	2018
Sight gold deposits	1,300,634	1,069,912
Term gold deposits	17,233,046	14,149,280
Gold in the National Bank vault	33,770	27,765
Total	18,567,450	15,246,957
Current	18,567,450	15,246,957

As of 31 December 2019, the National Bank total gold reserves were 221,786.4357 ounces (2018: 221,547.9877 ounces) at a fair value of US Dollar 1,523.00 (MKD 83,692) per ounce (2018: US Dollar 1,281.65 or MKD 68,810 per ounce).

Interest rates on term gold deposits in 2019 ranged between 0.01% and 0.20% p.a. for gold deposits based on the price of gold in US Dollar (2018: interest rate between 0.01% and 0.30 % p.a.). As of 31 December 2019, term gold deposits include accrued interest in the amount of MKD 5,790 thousand (2018: MKD 2,213 thousand).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2019

(Amounts expressed in thousands of MKD unless otherwise stated)

20. Special Drawing Rights

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. This current account bears interest in the amount of the so-called IMF basic rate. In 2019, the basic rate ranged from 0.740% to 1.153% p.a. (2018: from 0.764% to 1.121% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 42).

21. Receivables from Government related to IMF

	2019	2018
Receivable related to general and special net cumulative allocation	4,353,244	4,273,512
Receivable related to SDR inherited allocation	637,241	625,569
Total	4,990,485	4,899,081
Current	4,990,485	4,899,081

22. Government securities

	2019	2018
Securities at amortized cost		
Bond for selective credits	1,031,338	1,000,024
Total	1,031,338	1,000,024
Current	1,031,338	-
Non-current	-	1,000,024

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

The bond for selective credits, which becomes fully due in April 2020, is in a nominal amount of MKD 1,039,318 thousand and is non-interest bearing. This bond is valued at amortized cost and is amortized to the maturity of the bond.

23. IMF Membership

According to the IMF's Articles of Agreement, ratified by the Assembly 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 North Macedonia and simultaneously behaves as a depositary of the IMF in the Republic of North Macedonia. As such, the National Bank also keeps records of the quota of the Republic of North Macedonia for membership in the IMF on account no. 1 and account no. 2.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2019

(Amounts expressed in thousands of MKD unless otherwise stated)

23. IMF Membership (Continued)

The quota of the Republic of North Macedonia for membership in the IMF stands at MKD 10,721,616 thousand at the end of 2019, account no. 1 amounts to MKD 26,871 thousand and account no. 2 amounts to MKD 155 thousand (2018: MKD 10,253,443 thousand, MKD 25,698 thousand, and MKD 149 thousand respectively for the three positions). The differences are due to the evaluation of these positions at the SDR exchange rate as of 30 April 2019 and 2018, according to the IMF financial year (Note 38b).

24. Loans to banks

	2019	2018
Long-term loans from the conversion of the selective credits from 1996	15,912	15,912
Total	15,912	15,912
Current	15,912	-
Non-current	-	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 SFRY¹¹. The loans converted in 1996 mature on 31 March 2020 and bear annual interest of 1.5%, payable semiannually.

25. Other receivables

	2019	2018
Receivables from bank under bankruptcy	730,039	740,990
Due auction deposits	5,268	8,268
Total	735,307	749,258
Impairment	(735,307)	(749,258)
Total	-	-

In January 2004, the National Bank paid out MKD 1,018,258 thousand to foreign banks on the basis of guarantees given for borrowings of one Macedonian bank from foreign banks, in accordance with the Decision on the criteria and the conditions for the use of a portion of the foreign reserves based on guarantees for borrowings of Macedonian banks from foreign banks, which ceased being valid in March 2003. The National Bank created 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.

¹¹ Former Yugoslavia – Socialist Federal Republic of Yugoslavia

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***25. Other receivables (Continued)**

During the period from 2010 to 2019, the National Bank collected part of the receivable in the amount of MKD 231,234 thousand based on a decision on the advance allocation from the bankruptcy estate of the domestic bank in bankruptcy and from the bankruptcy estate of a debtor of the domestic bank in bankruptcy. In the period from 2015 to 2019, the National bank obtained assets (part of buildings and part of equipment) in total amount of MKD 73,296 thousand, of which MKD 10,951 thousand were obtained in 2019 (part of business premises)(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 2019, the National Bank collected part of the receivable in the amount of MKD 3,000 thousand (note 14).

The movements in impairment of other receivables are as follows:

	2019	2018
Balance as at 1 January	749,258	763,488
(Release) of impairment of other receivables (Note 14)	(3,000)	(14,230)
(Release) of impairment of other receivables based on foreclosed assets (Note 30)	(10,951)	-
Balance as at 31 December	735,307	749,258

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(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
As at 1 January 2018								
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)
As at 1 January 2018, net carrying amount	412,184	78,952	64,219	3,604	239,807	798,766	14,059	812,825
Additions								
- Cost	1,832	26,719	33	618	128,632	157,834	6	157,840
Disposals and write-offs:								
- Cost	-	(914)	-	-	-	(914)	-	(914)
- Accumulated depreciation	-	914	-	-	-	914	-	914
Write-offs of assets under construction	-	-	-	-	(22)	(22)	-	(22)
Transfers	-	20	-	32	(32)	20	(20)	-
- Cost	-	(20)	-	-	-	(20)	20	-
Depreciation for the year	(26,323)	(29,763)	-	-	-	(56,086)	(638)	(56,724)
As at 31 December 2018	387,693	75,908	64,252	4,254	368,385	900,492	13,427	913,919
As at 31 December 2018								
Cost	809,128	563,924	64,252	4,254	368,385	1,809,943	34,456	1,844,399
Accumulated depreciation	(421,435)	(488,016)	-	-	-	(909,451)	(21,029)	(930,480)
Net carrying amount	387,693	75,908	64,252	4,254	368,385	900,492	13,427	913,919

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(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
As at 1 January 2019								
Cost	809,128	563,924	64,252	4,254	368,385	1,809,943	34,456	1,844,399
Accumulated depreciation	(421,435)	(488,016)	-	-	-	(909,451)	(21,029)	(930,480)
As at 1 January 2019, net carrying amount	387,693	75,908	64,252	4,254	368,385	900,492	13,427	913,919
Effects of IFRS 16 Lease	4,554	-	-	-	-	4,554	-	4,554
As at 1 January 2019, net carrying amount	392,247	75,908	64,252	4,254	368,385	905,046	13,427	918,473
Additions								
- Cost	147	15,748	-	590	135,611	152,096	-	152,096
Disposals and write-offs:								
- Cost	-	(7,113)	-	-	-	(7,113)	-	(7,113)
- Accumulated depreciation	-	7,071	-	-	-	7,071	-	7,071
Transfers								
- Cost	184	182	-	9	(83)	292	(292)	-
- Accumulated depreciation	(184)	(108)	-	-	-	(292)	292	-
Depreciation for the year	(27,248)	(31,483)	-	-	-	(58,731)	(638)	(59,369)
As at 31 December 2019	365,146	60,205	64,252	4,853	503,913	998,369	12,789	1,011,158
As at 31 December 2019								
Cost	814,013	572,741	64,252	4,853	503,913	1,959,772	34,164	1,993,936
Accumulated depreciation	(448,867)	(512,536)	-	-	-	(961,403)	(21,375)	(982,778)
Net carrying amount	365,146	60,205	64,252	4,853	503,913	998,369	12,789	1,011,158

The initial value of the land and buildings position has been adjusted as at 1 January 2019, due to the application of IFRS 16 Leases, whereas for contracts that have operating lease characteristics, the residual value of the monthly lease payments to the lessor is recognized as a right-of-use asset.

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 the country. 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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019**

(Amounts expressed in thousands of MKD unless otherwise stated)

26. Property and equipment (Continued)

In 2013, the Government made a decision to give the National Bank a right of permanent use of land owned by the Republic of North Macedonia with purpose of building the new business premises. The land is not recorded in the books of the National Bank. During 2019 the National Bank made investments in assets under construction related to the new business premises in the amount of MKD 135,552 thousand (2018: MKD 128,549 thousand) (Note 43b).

As at 31 of December 2019 and 2018, the National Bank has no pledged property and equipment.

27. Intangible assets

	2019	2018
Balance as at 1 January		
Cost	237,641	231,958
Assets under construction	5,551	5,488
Accumulated amortization	(213,271)	(199,726)
Net carrying amount	29,921	37,720
Additions		
-Cost	7,012	5,683
-Transfer of assets under construction	63	-
Amortization charge	(14,468)	(13,545)
Assets under construction	(63)	63
Balance as at 31 December	22,465	29,921
Balance as at 31 December		
Cost	244,716	237,641
Assets under construction	5,488	5,551
Accumulated amortization	(227,739)	(213,271)
Net carrying amount	22,465	29,921

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, were manufactured for the purposes of celebrating jubilees relevant to the country.

As at 31 December 2019, the National Bank held a total of 173 gold coins and 26 silver coins (2018: 173 gold coins and 26 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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***28. Coins from precious metals (Continued)**

The National Bank purchases a certain quantity of the issue of collector coins for sale and distribution on the territory of the Republic of North Macedonia. In 2016, the National Bank started selling collector coins through commission. As at 31 December 2019, the National Bank held a stock of 400 pieces of collector coins (2018: 501 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:

	2019	2018
Fees	40,816	41,115
Receivables for maintenance of premises	2,128	2,114
Other receivables	405,941	405,274
Impairment of other receivables	(405,941)	(405,274)
Total	42,944	43,229

The movement of impairment of the other receivables is presented below:

	2019	2018
Balance as at 1 January	405,274	404,520
Increase of impairment of operating receivables (Note 14)	320	439
Increase of impairment of receivables from fees and commissions (Note 14)	344	308
Increase of doubtful receivables	3	7
Balance as at 31 December	405,941	405,274

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***30. Other assets**

	2019	2018
Advances	115,614	119,322
Prepaid expenses for printing banknotes	84,420	181,794
Office and other materials	10,076	10,041
Other accrued expenses	4,366	4,995
Assets on other basis	668	243
Foreclosed assets for uncollected receivables	55,848	44,897
Impairment on foreclosed assets for uncollected receivables	(55,848)	(44,897)
Total	215,144	316,395
Current	205,068	306,354
Non-current	10,076	10,041

Advances are prepaid funds in accordance with the contracts related with the new office building and for procurement of banknotes.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***31. Currency in circulation**

Currency in circulation comprises the following:

MKD	Nominal value	2019		2018	
		Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Currency in circulation (legal tender)					
Banknotes	100	15,666,078	1,566,608	14,934,540	1,493,454
	200	1,394,597	278,919	1,611,851	322,370
	500	9,482,457	4,741,229	8,331,494	4,165,747
	1000	21,361,053	21,361,053	22,394,437	22,394,437
	2000	6,748,268	13,496,536	4,806,787	9,613,574
Total banknotes			41,444,345		37,989,582
Polymer banknotes	10	22,505,566	225,056	14,418,675	144,187
	50	5,077,438	253,872	3,896,550	194,828
Total polymer banknotes			478,928		339,015
Coins	1	108,453,279	108,453	102,212,454	102,212
	2	71,591,888	143,184	64,725,916	129,452
	5	39,554,776	197,774	35,679,449	178,397
	10	34,988,737	349,887	40,292,314	402,923
	50	6,108,264	305,413	7,638,155	381,908
Total coins			1,104,711		1,194,892
Total currency in circulation (legal tender)			43,027,984		39,523,489
Currency in circulation - Collector coins					
Coins	10	82,280	823	82,260	823
	100	96,484	9,648	88,701	8,870
	1000	557	557	557	557
	2000	25	50	25	50
Total currency in circulation – Collector coins			11,078		10,300
Currency in circulation – Not a legal tender					
Coins	0.5	4,311,792	2,156	4,311,792	2,156
Banknotes	10	16,952,205	169,522	17,144,506	171,445
Banknotes	50	2,258,083	112,904	2,298,727	114,936
Banknotes	5000	2,095	10,475	2,567	12,835
Total currency in circulation – Not a legal tender			295,057		301,372
Total currency in circulation			43,334,119		39,835,161

In May 2018, the National Bank put into circulation new polymer banknotes in denominations of 10 and 50 Denars. Also, in May 2018, the National Bank made a decision according to which the banknotes in denomination of 10 and 50 Denars are withdrawn from circulation and are no longer considered a legal tender.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***32. Bank deposits**

	2019	2018
Bank deposits in MKD	32,879,842	28,063,046
Bank deposit facilities in MKD with the National Bank	29,599,019	14,176,020
Bank deposit in foreign currency RTGS - EUR	2,591,348	961,473
Total	65,070,209	43,200,539
Current	65,070,209	43,200,539

The liabilities based on deposits to banks in MKD reflect the balances on banks' accounts held at the National Bank for settling payment transactions. The funds on the banks' accounts are included in the fulfillment of the banks' MKD reserve requirement.

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 in 2019 was 0.15% p.a. (from January to the first half of March 2018 was 0.25% p.a., while from the second half of March to the end of 2018, the interest rate decreased to 0.15% p.a). The interest rate on 7-day deposit in 2019 was 0.3% p.a. (from January to the first half of March 2018 was 0.5% p.a., while from the second half of March to the end of 2018, the interest rate decreased to 0.3% p.a). Seven-day deposits include accrued interest in the amount of MKD 20 thousand (2018: MKD 20 thousand).

In 2017 accounts in Euros for settlement purposes of domestic banks were opened in RTGS for connection to TARGET 2 Euro payment system.

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

	2019	2018
Banks' foreign exchange reserve requirement	16,347,950	15,625,161
Savings houses' MKD reserve requirement	24,963	23,889
Total	16,372,913	15,649,050
Current	16,372,913	15,649,050

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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2019

(Amounts expressed in thousands of MKD unless otherwise stated)

33. Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD (Continued)

Since November 2018, in accordance with the Decision amending the Decision on reserve requirement¹², the National Bank started to determine reserve requirement remuneration rate in euros, equal to the ECB's overnight deposit interest rate which was valid on the last day of the fulfillment period.

The interest rate in the period from January to the first half of September 2019 was -0.4%, while from second half of September to December 2019 decreased and was -0.5% p.a. (November – December 2018 the interest rate was -0,40% p.a.). For the amount of allocated funds on the foreign currency account in euros in RTGS, which is higher than 5% of the calculated reserve requirement in euros, the interest rate in the period from January to the first half of September 2019 was -0.55%, while in the period from second half of September to December 2019 the interest rate has decreased to -0.65% p.a. (November – December 2018 the interest rate was -0.55% p.a.).

34. National Bank bills issued

In 2019, the National Bank used a tender with limited volume and fixed interest rate. The National Bank bill interest rate in the period from January to first half of March 2019 was 2.5%, while in the period from second half of March to December 2019 the interest rate decreased and was 2.25% p.a. (2018: from January to the first half of March was 3.25%; from the second half of March to the first half of August was 3%; from the second half of August to the first half of December was 2.75% and since the second half of December 2018 was 2.5% p.a.).

As of 31 December 2019, the accrued interest on National Bank bills amounted to MKD 30,883 thousand (2018: MKD 32,892 thousand).

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

	2019	2018
Balance as at 1 January	24,972,267	24,977,473
National Bank bills, inflows	298,344,000	299,803,000
National Bank bills, outflows	(298,575,000)	(299,803,000)
Discount (inflows/outflows)	4,546	(5,206)
Balance as at 31 December	24,745,813	24,972,267

¹² D.No.02-15/XVI-2/2018 of 25 October 2018, Official Gazette of the Republic of Macedonia No.198 of 31 October 2018

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2019

(Amounts expressed in thousands of MKD unless otherwise stated)

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.

	2019	2018
Single Treasury account	22,416,963	21,120,957
Other MKD deposits	1,256,586	1,162,882
Total	23,673,549	22,283,839
Current	23,673,549	22,283,839

The National Bank has paid interest on government deposits as specified in the Decision on calculation and payment of interest on government deposits with the National Bank¹³. The interest rate on government MKD deposits equals the interest rate on overnight deposit facilities of the National Bank.

In 2019, the interest paid by the National Bank on these deposits was 0.15% p.a. (during the period from January to the first half of March 2018 the interest paid by the National bank for the Government MKD deposits was 0.25% p.a., while in the period from the second half of March to December 2018 the interest rate was 0.15% p.a.). Government deposits include accrued interest in the amount of MKD 775 thousand (2018: MKD 775 thousand).

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 2019, these deposits amounted to MKD 13,613,528 thousand (2018: MKD 19,897,777 thousand).

In accordance with the Decision on calculating and payment of interest on Government deposits, the interest rates on government foreign currency deposits have been tied with the ECB overnight deposit rate. During 2019 and 2018, the interest rate was negative, and according with the Decision no interest on these deposits is accrued.

¹³ D. No. 02-15/XIV-3/2016 of 15 December 2016, Official Gazette of the Republic of Macedonia No. 218 of 20 December 2016

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2019

(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 2019, the balance of the restricted deposits was MKD 260,404 thousand (2018: MKD 258,021 thousand).

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, our country 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, our country 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 country was granted Special SDR Allocation in the amount of SDR 6,161,937.

Total liability of the Republic of North Macedonia for the SDR allocation at the end of 2019 amounted to SDR 65,616,876 (2018: 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 North Macedonia.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***38. Payables to IMF (Continued)**

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

	2019	2018
Liabilities based on issued promissory notes for membership in the IMF	10,721,616	10,253,443
Liabilities based on account 1	26,871	25,698
Liabilities based on account 2	155	149
Total	10,748,642	10,279,290
Current	10,748,642	10,279,290

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 our country 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 North Macedonia, has issued promissory notes for membership in the IMF.

39. Other deposits

	2019	2018
Liabilities based on MKD deposits to other domestic entities	2,237,773	2,065,224
Liabilities based on MKD deposits to international financial institutions	12,119	8,182
Total	2,249,892	2,073,406
Current	2,249,892	2,073,406

Liabilities based on MKD deposits to other domestic entities comprise client accounts of: Clearing interbanking systems – Reserve Guarantee Fund, brokerage houses and the Central Securities Depository accounts. 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 NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***40. Other payables**

Payables are analyzed as follows:

	2019	2018
Deposited funds from confiscated foreign currencies and deposited guarantees	309,387	329,124
Liabilities based on BNT bankruptcy	144,901	144,912
Payables for long-term employee benefits	35,333	35,849
Payables for allocation of net income	28,328	25,022
Liabilities to suppliers and other liabilities	28,462	23,880
Tax liabilities	8,518	3,681
Jubilee coins counterpart	4,777	4,191
Lease liabilities	3,640	-
Deferred income	8,446	11,559
Total	571,792	578,218

Liabilities 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 North Macedonia. The National Bank pays no interest on these funds.

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 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 2.895% on bonds issued by our country during 2019.

Payables from allocation of net income relate to allocation of net income to the Budget of the Republic of North 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).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2019

(Amounts expressed in thousands of MKD unless otherwise stated)

41. Capital and reserves

Capital

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2019, it amounted to MKD 1,289,789 thousand (2018: 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 reserves¹⁴, 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 North Macedonia. In case of a special reserve account¹⁵, 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 remaining balance 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 reserve account for building of new business premises.

	2019	2018
General reserves	1,321,000	1,316,002
Special reserves	627,877	550,114

Other reserves

	2019	2018
Other reserves from unrealized price and exchange rate differences		
- Other reserves from foreign exchange rate differences	1,049,592	1,154,465
- Other reserves from price and exchange rate differences of gold	8,674,225	5,540,491
- Other reserves from price differences of securities at fair value through profit and loss and derivatives	146,187	88,687
Total	9,870,004	6,783,643

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 respectively.

¹⁴ Defined as revaluation reserve accounts in the Law on the National Bank of the Republic of Macedonia

¹⁵ Defined as special reserve account in the Law on the National Bank of the Republic of Macedonia

41. Capital and reserves (Continued)

Other reserves (Continued)

Other reserves from foreign exchange rate differences from foreign exchange assets and liabilities for 2019 are decreased by MKD 104,873 thousand due to coverage of net unrealized negative foreign exchange differences (2018: increase of MKD 32,916 thousand on the basis of net unrealized positive foreign exchange rate differences).

Other reserves from price and exchange rate differences of gold for 2019 increased by MKD 3,133,734 thousand from which:

- Increase of MKD 3,246,087 thousand as a result of the allocation of the net unrealized positive price and foreign exchange rate differences of gold (2018: increase of MKD 528,432 thousand as a result of the allocation of the net unrealized positive price and foreign exchange rate differences of gold) and
- Decrease of MKD 112,353 thousands as a result of realized exchange rate and price differences from transactions in gold during 2019, which were added to the distributable earnings in 2019 (2018: MKD 1,151,236 thousand).

Other reserves from price differences of securities and derivatives at fair value through profit and loss for 2019 increased on a net basis by MKD 57,500 thousand from which:

- Increase on the basis of allocation of net unrealized positive price differences from securities at fair value through profit and loss in the amount of MKD 98,500 thousand on the "security by security" principle (2018: net unrealized positive price differences from securities at fair value through profit and loss and derivatives in amount of MKD 87,631 thousand);
- Decrease of MKD 35,612 thousand as a result of realized price changes of securities, which were added to the distributable earnings for 2019 (2018: MKD 5,659 thousand);
- Decrease of MKD 5,335 thousand as a result of realized price differences of derivatives - futures which were added to the distributable earnings for 2019 (2018: MKD 5,204 thousand); and
- Decrease of MKD 53 thousand as a result of covering the net unrealized negative price changes of securities at fair value through profit and loss (2018: MKD 332 thousand).

Other reserves from art works and library fund as of 31 of December 2019 amounted to MKD 3,993 thousand (2018: MKD 3,938 thousand). The increase in other reserves of MKD 55 thousand is a result of the books donated to the National Bank's library fund and museum items.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2019***(Amounts expressed in thousands of MKD unless otherwise stated)***42. Cash and cash equivalents**

	2019	2018
Foreign currencies (Note 15)	52,442	132,874
Foreign currency deposits (Note 16)	26,936,716	19,213,282
Special Drawing Rights (Note 20)	171,857	217,871
Total	27,161,015	19,564,027

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

The National Bank is a defendant in several legal proceedings arising from its operations. On 31 December 2019, the litigations were valued at MKD 123,666 thousand (2018: MKD 123,666 thousand). The National Bank contests these receivables 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 these litigations will be resolved in favor of the National Bank and that no material losses in respect of 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 2019, the National bank has commitments valued at MKD 1,014,995 thousand (2018: MKD 1,134,715 thousand), which are expected to be settled in the next two years.

44. Related parties transactions

The National Bank has related party transactions with the Government of the Republic of North Macedonia and with the Council members. The transactions and outstanding balances with the related parties are presented in Notes 5, 12, 21, 22, 35, 36 and 40.

45. 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.