

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 2020**

Content

	Page
Independent Auditor's Report	1-2
Income statement	4
Statement of comprehensive income	4
Statement of financial position	5-6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9-79

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, 2020, 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, 2020, 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)

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.

Aleksandar Arizanov
Certified auditor
Director



March 1, 2021

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

Emilija Nacevska, Vice Governor

Ana Mitreska, Vice Governor

Aleksandar Stojkov, non-executive member (until 29 April 2020)

Metodij Hadzi Vaskov, non-executive member (until 29 April 2020)

Mihail Petkovski, non-executive member (until 29 April 2020)

Sinisa Naumovski, non-executive member

Gadaf Redjepi, non-executive member

Registered office

Blvd. Kuzman Josifovski Pitu 1

1000, Skopje

INCOME STATEMENT

	Note	2020	2019
Interest income		149,887	368,985
Interest expense		(327,271)	(649,060)
Effects of negative interest rates		45,381	28,137
Net interest expense	5	(132,003)	(251,938)
Fee income		272,446	314,212
Fee expense		(23,705)	(28,784)
Net fee income	6	248,741	285,428
Net unrealized price and exchange rate differences	7	1,402,602	3,141,214
Net income from securities at fair value through profit and loss and derivatives	8	123,882	181,593
Net realized price and exchange rate differences	9	586,327	505,657
Dividend income	10	-	7,944
Other income	11	30,332	29,026
Personnel expenses	12	(450,211)	(428,365)
Depreciation and amortization charge	26,27	(70,626)	(73,837)
Other expenses	13	(163,505)	(205,304)
Provisions and Impairment / Released impairment	14	(10,316)	6,032
Gain for the year, net		1,565,223	3,197,450

STATEMENT OF COMPREHENSIVE INCOME

	2020	2019
Gain for the year from the Income statement, net	1,565,223	3,197,450
Other comprehensive income		
- Gains on received books donations - library fund	42	55
Other comprehensive income for the year	42	55
Total comprehensive gain for the year	1,565,265	3,197,505

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Financial Statements for the year ended 31 December 2020
(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	As at 31 December	
		2020	2019
Foreign currencies	15	3,417,438	52,442
Foreign currency deposits	16	26,748,038	26,936,716
Foreign securities	17	156,073,465	154,932,221
Derivatives	18	-	-
Gold	19	21,046,389	18,567,450
Special Drawing Rights	20	38,773	171,857
Receivables from Government related to IMF	21	15,005,439	4,990,485
Government securities	22	1,039,318	1,031,338
Receivables from Government		16,044,757	6,021,823
IMF Membership	23	10,908,938	10,748,642
Loans to banks	24	-	15,912
Other receivables	25	-	-
Receivables from banks		-	15,912
Property and equipment	26	1,272,678	1,011,158
Intangible assets	27	28,805	22,465
Coins from precious metals	28	5,436	5,235
Operating receivables	29	35,326	42,944
Other assets	30	215,342	215,144
Total assets		235,835,385	218,744,009

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Financial Statements for the year ended 31 December 2020
(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF FINANCIAL POSITION (Continued)

LIABILITIES AND EQUITY	Note	As at 31 December	
		2020	2019
Currency in circulation	31	50,039,944	43,334,119
Bank deposits	32	68,650,295	65,070,209
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	33	17,399,592	16,372,913
National Bank bills issued	34	9,994,589	24,745,813
Government MKD deposits	35	23,532,129	23,673,549
Government foreign currency deposits	36	22,465,832	13,613,528
Government deposits		45,997,961	37,287,077
Restricted deposits	37	140,819	260,404
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	38a	4,775,603	4,990,485
Borrowing from IMF - on behalf and for the account of the Government	38b	10,229,836	-
Payables based on membership and deposits	38c	10,908,938	10,748,642
Payables to IMF	38	25,914,377	15,739,127
Other deposits	39	2,484,250	2,249,892
Provisions	40	247	-
Other liabilities	41	568,001	571,792
Other liabilities		568,248	571,792
Total liabilities		221,190,075	205,631,346
Capital		1,289,789	1,289,789
General reserves		1,326,756	1,321,000
Special reserves		717,417	627,877
Other reserves		11,311,348	9,873,997
Total capital and reserves	42	14,645,310	13,112,663
Total liabilities and equity		235,835,385	218,744,009

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Financial Statements for the year ended 31 December 2020
(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 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 allocated in other reserves	42	-	-	-	3,246,087	-	(3,246,087)	-
Net unrealized negative foreign exchange rate differences covered by other reserves	42	-	-	-	(104,873)	-	104,873	-
Net unrealized positive price differences of securities allocated in other reserves	42	-	-	-	98,500	-	(98,500)	-
Net unrealized negative price differences of securities covered by other reserves	42	-	-	-	(53)	-	53	-
Realized price and exchange rate differences of gold	42	-	-	-	(112,353)	-	112,353	-
Realized price differences of securities and derivatives	42	-	-	-	(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	41	-	-	-	-	-	(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
As at 1 January 2020		1,289,789	1,321,000	627,877	9,870,004	3,993	-	13,112,663
Gain for the year		-	-	-	-	-	1,565,223	1,565,223
Gains on received books donations - library fund		-	-	-	-	42	-	42
Total comprehensive gain for 2020		-	-	-	-	42	1,565,223	1,565,265
Net unrealized positive price and exchange rate differences of gold allocated in other reserves	42	-	-	-	2,504,897	-	(2,504,897)	-
Net unrealized negative foreign exchange rate differences covered by other reserves	42	-	-	-	(1,049,592)	-	1,049,592	-
Net unrealized positive price differences of securities allocated in other reserves	42	-	-	-	53,107	-	(53,107)	-
Net unrealized negative price differences of securities covered by other reserves	42	-	-	-	(33,079)	-	33,079	-
Realized price and exchange rate differences of gold	42	-	-	-	(11,588)	-	11,588	-
Realized price differences of securities	42	-	-	-	(26,436)	-	26,436	-
Transfer to general reserves		-	5,756	-	-	-	(5,756)	-
Transfer to the special reserves		-	-	89,540	-	-	(89,540)	-
Transfer to the Budget of the Republic of North Macedonia	41	-	-	-	-	-	(32,618)	(32,618)
As at 31 December 2020		1,289,789	1,326,756	717,417	11,307,313	4,035	-	14,645,310

*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 79 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Financial Statements for the year ended 31 December 2020
(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF CASH FLOWS			
	Note	2020	2019
Cash flow from operating activities			
Gain for the year		1,565,223	3,197,450
Adjusted for:			
Interest income	5	(149,887)	(368,985)
Interest expense	5	327,271	649,060
Effects of negative interest rates	5	(45,381)	(28,137)
Net unrealized price and exchange rate differences of gold		(2,509,559)	(3,298,989)
Net income from securities at fair value through profit and loss		(1,122,108)	(49,035)
Dividend income		-	(7,944)
Impairment/(Released) impairment		10,066	(6,032)
Provisions		247	-
Depreciation and amortization charge	26,27	70,626	73,837
Cash flows from operating activities, before changes in operating assets and liabilities		(1,853,502)	161,225
Term deposits over 90 days		-	4,612,662
Gold		26,715	(21,504)
Foreign securities		(275,264)	(17,908,692)
Receivables from Government related to IMF		(10,211,048)	-
Loans to banks		15,912	-
Other assets		6,204	103,063
Currency in circulation		6,705,825	3,498,958
Bank deposits		3,580,227	21,871,035
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		1,025,724	723,863
National Bank bills, inflows		171,786,000	298,344,000
National Bank bills, outflows		(186,555,000)	(298,575,000)
Government deposits, including restricted and other deposits		8,825,657	(4,715,670)
Borrowing from IMF - on behalf and for the account of the Government		10,211,048	-
Other liabilities		(8,081)	(9,732)
Interest received		393,710	309,800
Interest paid		(264,121)	(616,377)
Dividends received		-	7,944
Net cash flows from operating activities		3,410,006	7,785,575
Acquisition of property, equipment and intangible assets		(338,444)	(163,565)
Net cash flows used in investing activities		(338,444)	(163,565)
Net income paid to the Budget of the Republic of North Macedonia		(28,328)	(25,022)
Net cash flows used for financing activities		(28,328)	(25,022)
Net increase in cash and cash equivalents		3,043,234	7,596,988
Cash and cash equivalents at the beginning of the year		27,161,015	19,564,027
Cash and cash equivalents at the end of the year	43	30,204,249	27,161,015

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 70% of the remaining portion shall 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 to 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 governing body of the National Bank.

The total number of employees as of 31 December 2020 is 434 (as of 31 December 2019: 440).

The financial statements were adopted by the National Bank Council on 26 February 2021 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) Changes in the environment and measures to mitigate the impact of the COVID-19 pandemic

By declaring a global pandemic in March 2020 by the World Health Organization due to the occurrence and the spread of the new viral infection (COVID-19), the Republic of North Macedonia introduced a series of containment measures in the country. The limitations included a ban on all travels outside of the country, limitations on the travels within the country during certain hours of the day, an interruption in the public transport, a halt of all commercial activities except those that can be carried out from home. Exception to these measures included certain specific business activities (grocery stores, pharmacy, business banking operations, gas stations, postal services, etc.). This lockdown was in effect by the end of July, followed by a gradual relaxation of the measures, but certain limitations and work protocols for certain business activities are still in force. These limitations on the business activity reflected negatively on the overall economic and social environment in the country.

As a result of the pandemic, the National Bank introduced work protocols and activated business continuity plans, whereby a part of the work activities were organized as "work from home or through a rotation schemes of the employees for certain operations that required the presence of the employees on the bank's premises", which ensured business continuity, high quality work performance, without jeopardizing the safety of people, systems and processes.

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

a) Changes in the environment and measures to mitigate the impact of the COVID-19 pandemic (Continued)

In the scope of its operations, the National Bank also undertook certain activities in order to support the domestic economy through active conduct of the monetary policy, as well as with certain amendments to the regulatory framework in the part of the banking system. Namely, the National Bank cut its policy rate, reduced the supply of National Bank bills that banks can register with the central bank, made regulatory changes that provided greater flexibility and left more space to banks to focus on the process of refinancing of the borrowers affected by the measures, made changes to the reserve requirement which released additional liquidity for greater support of the lending to the most affected sectors in the economy. The provision of additional liquidity is especially important, given the specificity of the shock and the measures taken to deal with it. In the part of its operations, the National Bank made changes to the single tariff for charging fees for services rendered by the National Bank, and in the period from March to the beginning of July, banks and cash distribution centers were exempted from paying a fee for withdrawing and returning cash. Furthermore, the services for providing data to natural persons from the Registry of data on the exposure to credit risk of legal entities and natural persons to banks and savings houses (Credit Registry) were released from payment.

The movements on the international financial markets were under the influence of the high uncertainty arising from the spread of the coronavirus and the reduced global economic activity, which led to increased volatility of the market prices of the financial instruments at the beginning of 2020. The threat of a full stoppage of the functioning of the financial markets and the growing uncertainty about the consequences of the pandemic influenced the decrease in the investors' tolerance to take risk, which led to an increase in the demand for the safest and liquid instruments with a simultaneous sharp decline in the prices of shares. At the same time, there was a spike of the yields on government bonds issued by the peripheral economies of the euro area and of the yields on bonds issued by commercial banks. Emerging economies registered outflows of portfolio investments and growth of the price of capital for these countries. In order to support the economic activity in conditions of extraordinary measures for dealing with the coronavirus, the monetary and fiscal reaction of the developed countries was strong and fast - significantly faster compared to the 2008 global financial crisis. The ECB, the Fed and the other central banks implemented a multitude of conventional and unconventional measures, whose main objective was to stabilize financial systems, to reduce unfavorable impacts on the economies and to restore confidence in the global financial system.

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

a) Changes in the environment and measures to mitigate the impact of the COVID-19 pandemic (Continued)

At the end of the year, the international markets registered gradual stabilization. The optimism for a recovery of the global economic activity was supported by the development and approval of vaccines against the coronavirus, the reaching of an agreement for the Brexit between the United Kingdom and the EU, the election of a new president of the USA and the additional monetary stimulus. The improvement of the international financial conditions was visible through the increase in the prices of shares, the reduction of credit risk spreads, but also the improved general perceptions for the emerging economies and developing countries, whereby the interest rates returned to approximately same level from the period before the beginning of the crisis.

The National Bank countered the crisis with a safe level of foreign reserves. In addition, the favorable transmission effects of the accommodative monetary policy of the ECB contributed to easing the financial conditions and the access to financing on the international financial markets, and by our Government as well. This also meant a favorable effect on the foreign reserves and by itself left room for an additional monetary reaction. All adequacy assessment indicators confirm that the level of foreign reserves at the end of the year is appropriate and provides sufficient liquidity in the cross-border payments and supports the exchange rate of the denar against the euro. At the end of the year, they amount to Euro 3 billion and Euro 360 million, which is approximately 100 Euro million more compared to the end of 2019.

In the foreign reserves management, the National Bank successfully dealt with the challenges posed by the COVID-19 pandemic, abiding by the principles of safety, liquidity and profitability. The determination for safety and liquidity of the investments of the foreign reserves was provided by shifting the investments of the foreign reserves to securities from issuers with the highest credit rating, and which make up the benchmark indices, i.e. in government bonds issued by the so-called core and semi-core countries in the euro area. Fixed Income securities make up the bulk of the foreign reserves. In 2020, there was also an increase in the investments in securities issued by international financial institutions, supranational organizations and multilateral development banks, issuers that are considered extremely safe and have the highest credit rating. At the beginning of the crisis, the exposure to the periphery countries in the euro area was reduced with the maturing of part of the Spanish and Italian securities. Later, the accommodative approach of the ECB to the conduct of the monetary policy in the new non-standard monetary policy securities purchase program introduced due to the pandemic, enabled new long term investments in debt securities issued by Italy. The exposure of the foreign reserves to the commercial banks was also reduced, given the reduced liquidity on the international markets and the inability to assess the consequences on their credit position. At the beginning of the pandemic, the uncollateralized placements and the investments in corporate bonds issued by commercial banks were shifted to safer investments in government securities, and the rollover of repo and swap transactions was suspended.

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

a) Changes in the environment and measures to mitigate the impact of the COVID-19 pandemic (Continued)

After the analysis of the banking sector and the perception at the end of the year for an improvement of the outlook for the financial institutions, the short-term placements with the commercial banks were renewed, on an uncollateralized and collateralized basis.

Last year witnessed an increase in the part of the foreign reserves which was maintained on current accounts, within the operational portfolio. These funds on accounts with the central banks and the foreign commercial banks were maintained at a relatively higher level in order to meet possible liquidity needs for foreign exchange market interventions due to the shock caused by the pandemic. Growth of the operational portfolio was also created from the increase in the share of foreign currency kept in the vault. Namely, in order to meet the increasing demand and to maintain the stability of the foreign exchange rate of the denar, the National Bank maintained a higher level of effective foreign assets in several currencies.

Gold was maintained at a stable level with the Bank of England. In conditions of an increased global investors' interest in safer financial instruments, including the gold, the price of this precious metal reached the historically highest level.

The high uncertainty about the effects of the pandemic and the increased volatility of the yields on the international financial markets, which increased the prices of the instruments issued by countries that are perceived as safe, contributed to positive financial performances from foreign reserve management in 2020. The active approach of foreign reserves management, through increased investments in government securities of the core and semi-core of the euro area, together with the favorable performances with the natural maturity of the relatively risky instruments (corporate instruments of commercial banks and periphery issuers in the euro area), determined the positive part of the return on foreign reserves management and contributed to exceeding the results of the adequate benchmark portfolios. The positive financial results were complemented with favorable performances from active currency risk management.

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

a) Changes in the environment and measures to mitigate the impact of the COVID-19 pandemic (Continued)

In order to mitigate the effects of the health crisis on the domestic economy, the National Bank relaxed the monetary policy by reducing the key interest rate and the offered amount of National Bank bills. Namely, after the reduction of the key interest rate of 0.25 percentage points in January 2020 (shortly before the onset of the crisis), in March 2020 the interest rate on National Bank bills was reduced by additional 0.25 percentage points, and the new interest rate of 1.75% started to be effective from 1 April 2020. In addition, in May 2020, the National Bank reduced the interest rate by additional 0.25 percentage points, to a level of 1.5%, which was also maintained by the end of the year. The amount of National Bank bills throughout 2019, as well as during the first quarter of 2020, moved around the average, at a level of MKD 25,000,000 thousand. However, in the second quarter of 2020, the National Bank reduced the amount of National Bank bills twice (in April and May) by a total of MKD 15,000,000 thousand, i.e. by the end of 2020 it was maintained at a level of MKD 10,000,000 thousand. Such changes in the main monetary instrument, aimed to withdraw a dominant part of the structural excess liquidity from the banking system, reduced the monetary expenditures by MKD 309,931 thousand at the end of 2020 as compared to 2019.

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

b) 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:

- **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 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 References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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.

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

c) 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:

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023),
- **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 IFRS 16 "Leases"** - Covid-19-Related Rent Concessions are effective for annual periods beginning on or after 1 June 2020 but earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020 (the amendment is also available for interim reports),
- **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 2023),
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts—Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

c) New accounting standards, amendments to existing standards not yet adopted (continued)

- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases”** - Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2018 -2020)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

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 Macedonian Denars (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, except for the records of the quota of the Republic of North Macedonia for IMF membership, as well as the account no. 1 and account no. 2 (notes 23 and 38c). 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 2020	31 December 2019
	MKD	MKD
USD	50.2353	54.9518
EUR	61.6940	61.4856
SDR	72.7801	76.0549

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 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 Special Drawing Rights (hereinafter: 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 National 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 loss is calculated (Note 2J).

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 the Bank for International Settlement hereinafter: 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, 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. The probability of default is depended on the average longterm credit rating of the instruments: the lower the credit rating, the higher the probability of default. The Covid-19 pandemic highlighted and increased the risks for many countries and issuers, thus resulting in lower credit rating for some of them. For the financial asset measured at amortized cost, the lower credit rating impacted the expected credit loss by increasing the impairment. Nevertheless, no significant increase in the credit risk was recorded, therefore all the financial assets were classified in stage 1 and the impact on the expected credit loss was insignificant.

2. Summary of significant accounting policies (Continued)

K Trade and settlement date accounting

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

L Non - current assets or disposal groups held for sale

Non - current assets 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:

2. Summary of significant accounting policies (Continued)

M Property and equipment (Continued)

	2020	2019
Buildings	5 to 50 years	5 to 50 years
Equipment	3 to 10 years	3 to 10 years
Transport vehicles	5 to 6 years	5 to 6 years
Office furniture	5 to 10 years	5 to 10 years

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

N Intangible assets

Intangible assets consist of computer software and licenses. These assets are stated at their cost and are 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.

2. Summary of significant accounting policies (Continued)

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.

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 the 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.

2. Summary of significant accounting policies (Continued)

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. The 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.

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.

2. Summary of significant accounting policies (Continued)

X Recognition of income and expense (Continued)

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.

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 long-term bonds issued by our country in the current financial year.

2. Summary of significant accounting policies (Continued)

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 from 2014 applicable from 1 January 2015.

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.

AC Comparable data

For the purpose of appropriate presentation of the current year, certain items of the comparative data from the Statement of Cash Flows are reclassified. These reclassifications did not materially affect the content and the form of the financial information presented in the financial statements.

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.

The National Bank determines the amount of the expected credit loss on the basis of the estimated probability, as difference between the 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 National Bank determines the amount of expected credit loss for financial assets measured at amortized cost.

3. Financial risk management (Continued)

A Credit risk (Continued)

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 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.

3. Financial risk management (Continued)

A Credit risk (Continued)

The table below presents the structure of financial assets:

ASSETS	2020	2019
Foreign currency deposits	26,748,038	26,936,716
- Foreign currency sight deposits	21,974,994	21,950,219
- Foreign currency term deposits at foreign banks	4,773,044	4,986,497
Foreign securities	156,073,465	154,932,221
Gold deposits	21,008,056	18,533,680
Special Drawing Rights	38,773	171,857
Receivables from Government related to IMF	15,005,439	4,990,485
Government securities	1,039,318	1,031,338
Receivables from banks	-	15,912
Operating receivables and other assets	101,450	159,226
As at 31 December	220,014,539	206,771,435

The analysis of the structure of financial instruments of the National Bank indicates that there are no significant changes compared to 2019. The impairment of the exposure of the financial instruments is within Stage 1, with no movements from one stage of exposure to another.

The tables below present an overview of the financial assets that are not past due, but impaired (for financial instrument measured at amortized cost), by rating agency designation as at 31 December 2020 and 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.

Financial assets which are individually impaired as at 31 December 2020 and 31 December 2019 are presented in "Foreign currency term deposits at foreign banks" (Note 16), "Foreign securities" (Note 17), "Other receivables" (Note 25) and "Operating receivables" (Note 29).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

Credit rating as at 31 December 2020	Foreign currency sight deposits	Foreign currency term deposits at foreign banks	Foreign securities	Gold deposits	Special Drawing Rights	Receivables from the Government	Operating receivables and other assets	Total
AAA	13,381,455	-	40,182,214	-	-	-	-	53,563,669
AA+	3,078,591	-	38,783,577	-	-	-	-	41,862,168
AA	1,236,253	3,265,874	21,683,200	-	-	-	-	26,185,327
AA-	313,721	1,507,170	14,620,154	20,991,848	-	-	-	37,432,893
A+	16,415	-	7,101,051	-	-	-	-	7,117,466
A	10,367	-	6,639,219	-	-	-	-	6,649,586
A-	4,368	-	10,686,844	-	-	-	-	10,691,212
IFI ¹	1,948	-	39,119	16,208	38,773	-	-	96,048
BBB+	2,670	-	-	-	-	-	-	2,670
BBB	-	-	556,714	-	-	-	-	556,714
BB ²	-	-	-	-	-	16,044,757	-	16,044,757
BBB-	3,929,206	-	15,781,373	-	-	-	-	19,710,579
Unrated ³	-	-	-	-	-	-	101,450	101,450
Total	21,974,994	4,773,044	156,073,465	21,008,056	38,773	16,044,757	101,450	220,014,539

¹ International Financial 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 2020
(Amounts expressed in thousands of MKD unless otherwise stated)
3. Financial risk management (Continued)
A Credit risk (Continued)

Credit rating as at 31 December 2019	Foreign currency sight deposits	Foreign currency term deposits at foreign banks	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
IFI	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	-	-	-	-	-	6,021,823	-	-	6,021,823
Unrated	-	-	-	-	-	-	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

3. Financial risk management (Continued)

A Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the National Bank's credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2020. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	EU Countries	Non-EU member countries	Republic of North Macedonia	Other OECD countries	Other countries	Total
Foreign currency sight deposits	16,874,118	5,475	-	4,787,149	308,252	21,974,994
Foreign currency term deposits at foreign banks	3,265,874	-	-	-	1,507,170	4,773,044
Foreign securities	141,894,838	1,121,110	-	7,047,959	6,009,558	156,073,465
Gold deposits	-	21,008,056	-	-	-	21,008,056
Special Drawing Rights	-	-	-	38,773	-	38,773
Receivables from Government	-	-	16,044,757	-	-	16,044,757
Operating receivables and other assets	-	-	101,450	-	-	101,450
31 December 2020	162,034,830	22,134,641	16,146,207	11,873,881	7,824,980	220,014,539
31 December 2019	165,607,221	3,934,119	6,196,961	15,383,117	15,650,017	206,771,435

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 horizon⁴, and 99% and a 10-day horizon⁵.

In December 2020, 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 1,295,674 thousand (Euro 21,001,617), or 0.63% 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 1,269,008 thousand (Euro 20,569,397), while VAR from the change in the prices of instruments in which the foreign reserves are invested totals MKD 26,666 thousands (Euro 432,220).

	31 December 2020	31 December 2019
Currency risk	1,269,008	903,890
Interest rate risk	26,666	133,905
Total VAR	1,295,674	1,037,795

⁴ For internal assessment of the set budget for risk.

⁵ 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 2020 and 31 December 2019, analyzed by currency.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2020
(Amounts expressed in thousands of MKD unless otherwise stated)
3. Financial risk management (Continued)
C Foreign exchange risk (Continued)

As at 31 December 2020:

ASSETS	EUR	USD	SDR	Other	MKD	Total
Foreign currencies	2,729,688	665,525	-	22,225	-	3,417,438
Foreign currency deposits	17,170,169	9,542,077	-	35,792	-	26,748,038
Foreign securities	154,627,929	1,406,417	39,119	-	-	156,073,465
Gold	-	21,046,389	-	-	-	21,046,389
Special Drawing Rights	-	-	38,773	-	-	38,773
Receivables from Government	-	-	15,005,439	-	1,039,318	16,044,757
IMF Membership	-	-	10,908,938	-	-	10,908,938
Operating receivables and other assets	294	2	828	11,370	88,956	101,450
Total assets	174,528,080	32,660,410	25,993,097	69,387	1,128,274	234,379,248
LIABILITIES						
Currency in circulation	-	-	-	-	50,039,944	50,039,944
Bank deposits	4,189,777	-	-	-	64,460,518	68,650,295
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	17,378,901	-	-	-	20,691	17,399,592
National Bank Bills issued	-	-	-	-	9,994,589	9,994,589
Government deposits	22,442,096	18,699	-	5,037	23,532,129	45,997,961
Restricted deposits	72,794	66,651	-	1,374	-	140,819
Payables to IMF	-	-	25,914,377	-	-	25,914,377
Other deposits	-	-	-	-	2,484,250	2,484,250
Other liabilities	229,205	15,412	828	31,218	280,260	556,923
Total liabilities	44,312,773	100,762	25,915,205	37,629	150,812,381	221,178,750
Net financial position	130,215,307	32,559,648	77,892	31,758	(149,684,107)	13,200,498

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(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

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 2020 and 31 December 2019 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 2020
(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

D Interest rate risk (Continued)

As at 31 December 2020:

	Interest-bearing items					Total 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	-	-	-	-	-	-	3,417,438	3,417,438
Foreign currency deposits	24,237,043	2,511,736	-	-	-	26,748,779	(741)	26,748,038
Foreign securities	-	-	92,008,938	19,610,995	8,415,505	120,035,438	36,038,027	156,073,465
Gold	-	-	3,314,003	-	-	3,314,003	17,732,386	21,046,389
Special drawing rights	38,773	-	-	-	-	38,773	-	38,773
Receivables from Government	-	-	-	-	-	-	16,044,757	16,044,757
IMF Membership	-	-	-	-	-	-	10,908,938	10,908,938
Operating receivables and other assets	-	-	-	-	-	-	101,450	101,450
Total assets	24,275,816	2,511,736	95,322,941	19,610,995	8,415,505	150,136,993	84,242,255	234,379,248
LIABILITIES								
Currency in circulation	-	-	-	-	-	-	50,039,944	50,039,944
Bank deposits	49,485,912	-	-	-	-	49,485,912	19,164,383	68,650,295
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	17,378,901	-	-	-	-	17,378,901	20,691	17,399,592
National Bank Bills issued	9,988,350	-	-	-	-	9,988,350	6,239	9,994,589
Government deposits	6,000,000	-	-	-	-	6,000,000	39,997,961	45,997,961
Restricted deposits	-	-	-	-	-	-	140,819	140,819
Payables to IMF	-	-	-	-	-	-	25,914,377	25,914,377
Other deposits	-	-	-	-	-	-	2,484,250	2,484,250
Other liabilities	-	-	-	-	-	-	556,923	556,923
Total liabilities	82,853,163	-	-	-	-	82,853,163	138,325,587	221,178,750
Total interest rate risk	(58,577,347)	2,511,736	95,322,941	19,610,995	8,415,505	67,283,830	(54,083,332)	13,200,498

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2020
(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					Total 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	-	-	-	26,925,206	11,510	26,936,716
Foreign securities	-	1,668,515	99,017,818	8,952,432	15,558,938	125,197,703	29,734,518	154,932,221
Gold	12,153,649	-	5,073,607	-	-	17,227,256	1,340,194	18,567,450
Special drawing rights	171,857	-	-	-	-	171,857	-	171,857
Receivables from Government	-	-	1,031,338	-	-	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	-	15,912
	-	-	-	-	-	-	159,226	159,226
Total assets	36,777,902	4,157,237	105,122,763	8,952,432	15,558,938	170,569,272	47,037,017	217,606,289
LIABILITIES								
Currency in circulation	-	-	-	-	-	-	43,334,119	43,334,119
Bank deposits	32,190,348	-	-	-	-	32,190,348	32,879,861	65,070,209
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	16,352,971	-	-	-	-	16,352,971	19,942	16,372,913
National Bank Bills issued	24,714,930	-	-	-	-	24,714,930	30,883	24,745,813
Government deposits	6,000,000	-	-	-	-	6,000,000	31,287,077	37,287,077
Restricted deposits	-	-	-	-	-	-	260,404	260,404
Payables to IMF	-	-	-	-	-	-	15,739,127	15,739,127
Other deposits	-	-	-	-	-	-	2,249,892	2,249,892
Other liabilities	-	-	-	-	-	-	561,417	561,417
Total liabilities	79,258,249	-	-	-	-	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	91,311,023	(79,325,705)	11,985,318

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

Liquidity risk is the risk of insufficiency of liquid funds for normal performance of the functions of the National Bank. 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 Investment portfolio, may have an investment horizon of more than one year and is managed in order to enhance the return on foreign reserves. The operational and the liquidity portfolio are forecasted 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 (measured at fair value through profit and loss) 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 2020
(Amounts expressed in thousands of MKD unless otherwise stated)
3. Financial risk management (Continued)
E Liquidity risk (Continued)

31 December 2020	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	50,039,944	-	-	-	-	50,039,944
Bank deposits	49,893,458	-	18,756,837	-	-	68,650,295
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	(4,065)	-	17,403,657	-	-	17,399,592
National Bank Bills issued	9,994,589	-	-	-	-	9,994,589
Government deposits	45,997,961	-	-	-	-	45,997,961
Restricted deposits	105,883	-	34,936	-	-	140,819
Payables to IMF	15,703,329	-	-	10,211,048	-	25,914,377
Other deposits	2,484,250	-	-	-	-	2,484,250
Other liabilities	485,794	32,618	38,511	-	-	556,923
Total liabilities (contractual maturity dates)	174,701,143	32,618	36,233,941	10,211,048	-	221,178,750
Assets held for managing liquidity risk (expected maturity dates)	185,891,509	4,320,777	5,674,575	29,929,874	8,562,513	234,379,248

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2020

(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 (including its conversion into cash) 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	
	2020	2019	2020	2019
Financial assets				
<i>Carried at amortized cost</i>				
Foreign currencies	3,417,438	52,442	3,417,438	52,442
Foreign currency deposits	26,748,038	26,936,716	26,748,038	26,936,716
Special Drawing Rights	38,773	171,857	38,773	171,857
Receivable from Government related to IMF	15,005,439	4,990,485	15,005,439	4,990,485
IMF Membership	10,908,938	10,748,642	10,908,938	10,748,642
Receivables from banks	-	15,912	-	15,912
Operating receivables and other assets	101,450	159,226	101,450	159,226
Foreign debt securities	32,877,476	32,016,260	33,829,336	32,575,935
Government securities	1,039,318	1,031,338	1,039,318	1,031,338
	90,136,870	76,122,878	91,088,730	76,682,553
<i>Securities at fair value through other comprehensive income</i>				
Foreign equity securities	39,119	40,880	39,119	40,880
	39,119	40,880	39,119	40,880

	Carrying value		Fair value	
	2020	2019	2020	2019
Financial liabilities				
<i>Carried at amortized cost</i>				
Currency in circulation	50,039,944	43,334,119	50,039,944	43,334,119
Bank deposits	68,650,295	65,070,209	68,650,295	65,070,209
Reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD	17,399,592	16,372,913	17,399,592	16,372,913
National Bank bills issued	9,994,589	24,745,813	9,994,589	24,745,813
Government MKD deposits	23,532,129	23,673,549	23,532,129	23,673,549
Government foreign currency deposits	22,465,832	13,613,528	22,465,832	13,613,528
Payables to IMF	25,914,377	15,739,127	25,914,377	15,739,127
Other and restricted deposits	2,625,069	2,510,296	2,625,069	2,510,296
Other liabilities	556,923	561,417	556,923	561,417
	221,178,750	205,620,971	221,178,750	205,620,971

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 were 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, so the National Bank's management estimates that the fair value of these securities approximates their carrying value.

As explained in Note 17, securities at fair value through other comprehensive income include BIS shares with a value of MKD 39,119 thousand (2019: MKD 40,880 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 of the IMF as an international financial institution, the fair value of liabilities based on IMF Membership, SDR allocation and borrowing from IMF on behalf and for the account of the Government do not differ from their carrying amounts.

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 profit and loss

31 December 2020	Level 1	Level 2	Level 3	Total
Foreign debt securities	123,156,870	-	-	123,156,870
Gold	21,046,389	-	-	21,046,389
Total financial assets	144,203,259	-	-	144,203,259

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

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 there is no sufficient market experience, stability, and liquidity for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are not readily available.

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

Fair value of financial instruments (Continued)

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 employees' 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 41).

Impairment of financial assets

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 2020
(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	Total
					2020	2019
Deposits and current accounts in foreign currency	-	-	32,656	-	32,656	152,592
Securities at amortized cost	7,980	-	98,530	-	106,510	178,213
Gold deposits	-	-	5,553	-	5,553	15,419
Reverse repos in foreign currency with received collateral in gold	-	-	4,466	-	4,466	-
Reverse repos in foreign currency	-	-	584	-	584	18,971
Other interest	33	84	-	1	118	3,790
Total 2020	8,013	84	141,789	1	149,887	368,985
Total 2019	31,333	3,769	333,882	1	368,985	

Interest expense

Interest expenses	Government	Domestic banks	Foreign entities	Other entities	Total	Total
					2020	2019
Deposits	9,150	49,317	-	-	58,467	52,177
National Bank bills	-	268,684	-	-	268,684	578,615
Repos transactions in foreign currency	-	-	-	-	-	18,202
Interest for long term right-of-use assets	-	-	-	51	51	66
Other interest	-	-	69	-	69	-
Total 2020	9,150	318,001	69	51	327,271	649,060
Total 2019	9,125	621,667	18,202	66	649,060	

5. Net interest expense (Continued)**Effects of negative interest rates**

Effects of negative interest rates	Domestic banks	Foreign entities	Total 2020	Total 2019
Deposits and current accounts in foreign currency	-	(57,057)	(57,057)	(55,650)
Reserve requirement of banks in foreign currency	93,405	-	93,405	75,429
Repos in foreign currency	-	50,274	50,274	60,010
Reverse repos in foreign currency	-	(45,198)	(45,198)	(51,652)
Repos in foreign currency with given collateral in gold	-	3,611	3,611	-
Received deposits from banks in foreign currency	346	-	346	-
Total 2020	93,751	(48,370)	45,381	28,137
Total 2019	75,429	(47,292)	28,137	

6. Net fee income**Fee income**

	2020	2019
Fees from domestic banks for maintaining account based on debt turnover on an account	139,679	140,032
Fees from providing cash to banks	59,978	86,867
Fees based on settlement of payments (RTGS)	30,556	35,401
Fees from foreign exchange operations with public sector	21,349	26,239
Other fees	20,884	25,673
Total	272,446	314,212

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.

In conditions of spread of COVID-19, the National Bank abolished the fee for providing cash as a measure for prevention and protection of the health of the population in the country in the period from March to June 2020.

The fee for providing cash was reintroduced in July 2020, given the fact that banks gradually began to return to the regular operating mode.

The revenues based on fees from debt turnover on an account, providing cash to banks and settlement of payments through RTGS⁶ relate to services that the National Bank provides to domestic banks and other account holders in RTGS.

⁶ RTGS is Macedonian Interbank Payment System (MIPS), owned by the National Bank.

6. Net fee income (Continued)**Fee income (Continued)**

Fees from foreign exchange operations with public sector 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.

From May 2020, the fee charged by the National Bank from individuals for access to the data from the Credit Registry on credit risk exposure of legal entities and individuals to banks and savings houses, was temporarily abolished.

Fee expense

	2020	2019
Fees for services received from foreign banks	11,446	18,158
Fees for Securities Depositories	10,134	9,497
Fees for futures	1,695	1,104
Other fees	430	25
Total	23,705	28,784

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.

In 2020, the main part of the fee expenses is related to the expenses paid to the foreign banks for purchase of foreign currencies for payment and expenses paid to the foreign banks and custodians for securities maintenance. In 2019, the fee expense for services received from foreign banks includes the expenses paid by the National Bank for the RAMP – advisory program⁷.

⁷ 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 2020
(Amounts expressed in thousands of MKD unless otherwise stated)
7. Net unrealized price and exchange rate differences

	2020	2019
Unrealized positive exchange rate differences	3,218,115	2,445,048
Unrealized negative exchange rate differences	(4,267,707)	(2,549,921)
Unrealized negative exchange rate differences that affect the financial result	(52,703)	-
Unrealized positive price and exchange rate differences from gold	26,085,177	14,847,807
Unrealized negative price and exchange rate differences from gold	(23,580,280)	(11,601,720)
Total	1,402,602	3,141,214

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

	2020	2019
Realized gains from securities at fair value through profit and loss	169,309	92,407
Realized losses from securities at fair value through profit and loss	(471,388)	(134,731)
Unrealized positive price differences from securities at fair value through profit and loss	53,107	98,500
Unrealized negative price differences from securities at fair value through profit and loss	(1,175,215)	(1,399,080)
Interest income from securities at fair value through profit and loss	1,539,874	1,534,925
Total net income from securities at fair value through profit and loss	115,687	192,021
Realized gains from futures	26,439	29,983
Realized losses from futures	(18,244)	(40,411)
Total net gain/loss from derivatives	8,195	(10,428)
Total net income from securities at fair value through profit and loss and derivatives	123,882	181,593

In 2019, the total net income 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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***9. Net realized price and exchange rate differences**

	2020	2019
Realized positive exchange rate differences from arbitration with foreign banks, net	418,368	383,430
Realized positive exchange rate and price differences on other basis, net	167,959	122,227
Total	586,327	505,657

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 foreign banks, purchase and sale of foreign currency with domestic banks, purchase and sale of gold 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.

10. Dividend income

	2020	2019
Dividend income on investments in BIS	-	7,944
Total	-	7,944

During 2020, the National Bank did not generate dividend income on investments in BIS. Due to the Covid-19 pandemic, the Board of Directors of BIS decided not to distribute dividends from the realized profit of the bank for 2019, and to distribute the entire amount to the bank's reserves.

11. Other income

	2020	2019
Revenue from automatic securities lending	9,792	6,338
Royalty income from collector coins	842	940
Revenue from sale of collector coins	311	462
Income on other basis	19,387	21,286
Total	30,332	29,026

12. Personnel expenses

	2020	2019
Wages and personal income tax	314,873	302,385
Pension cost – defined contribution plans	82,221	76,752
Mandatory contributions	40,236	37,959
Other personnel expenses	12,881	11,269
Total	450,211	428,365

In 2020, the remuneration of the key management of the National Bank was MKD 14,457 thousand (2019: MKD 14,911 thousand), included in "Personnel expenses" above. Personnel expenses are related to short term employee benefits.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***13. Other expenses**

	2020	2019
Costs of production of banknotes and coins	67,904	98,054
Costs for services received	69,628	67,254
Material expenses	20,714	20,870
Other administrative expenses	3,830	17,022
Collector coins expenses	376	1,127
Expenses on other basis	1,053	977
Total	163,505	205,304

The costs of banknote and coin manufacture mainly relate to purchased banknotes and coins, and to the materials 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.

14. Provisions and Impairment/Released impairment

	Note	2020	2019
Charged impairment on foreign securities	17	12,214	213
(Released) impairment on foreign securities	17	(3,163)	(3,625)
Charged net impairment of receivables from fees and commissions	29	922	344
Charged impairment of interest receivables	29	52	-
Charged impairment on term deposits	16	53	49
(Released) impairment on term deposits	16	(50)	(333)
Charged net impairment of operating receivables	29	41	320
Charged provisions related to lawsuits with legal entities	40	247	-
(Released) impairment of other receivables	25	-	(3,000)
Total provisions and impairment/(released) impairment		10,316	(6,032)

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***15. Foreign currencies**

	2020	2019
Euro	2,729,688	21,476
US dollars	665,525	17,897
British pounds	5,903	1,774
Australian dollars	4,182	1,527
Other currencies	12,140	9,768
Total	3,417,438	52,442

Foreign currencies include cash and checks in foreign currency. Foreign currencies are included in cash equivalents for the purposes of the cash flow statement (Note 43).

16. Foreign currency deposits

	2020	2019
Foreign currency sight deposits	21,974,994	21,950,219
Foreign currency term deposits at foreign banks	4,773,044	4,986,497
Included in the cash and cash equivalents (Note 43)	26,748,038	26,936,716
Total	26,748,038	26,936,716

Term deposits at foreign banks include accrued interest in amount of MKD 743 thousand (31 December 2019: MKD 13,408 thousand).

As at 31 December 2020, the impairment of term deposits was MKD 53 thousand (31 December 2019: MKD 49 thousand). The movement of the impairment of term deposits is shown in the table below:

	Note	2020	2019
Balance as at 1 January		49	333
Increase of impairment on foreign currency term deposits	14	53	49
(Released) impairment on foreign currency term deposits	14	(50)	(333)
Effect of unrealized foreign exchange rate differences		1	-
Balance as at 31 December		53	49

The deposits bear annual interest at rates contingent upon the deposit currency and during 2020 and 2019 have the following values for the respective deposits:

Interest rate type	2020	2019
- Overnight deposits in USD	0.29%	2.14%
- Euro overnight deposits	-0.505%	-0.45%
- Term deposits in USD	1.35%	2.34%
- Term deposits in EUR	-	0.06%
- Term deposits in EUR-RAMP	-	-0.5%

16. Foreign currency deposits (Continued)**Foreign currency deposits by entity type**

	2020	2019
Central banks	24,906,395	19,050,435
Foreign commercial banks	1,839,695	7,884,272
International financial institutions	1,948	2,009
Total	26,748,038	26,936,716

Foreign currency deposits by geographic location

	2020	2019
Europe	20,145,467	20,843,036
North America	4,766,695	2,475,858
Asia	1,835,876	3,617,822
Total	26,748,038	26,936,716

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.

	2020	2019
Bonds	96,297,936	96,364,178
Discounted papers	20,552,684	-
Commercial papers	3,706,480	17,301,424
Certificate of deposits	2,599,770	9,209,479
Debt securities at fair value through profit and loss	123,156,870	122,875,081
Bonds	32,877,476	32,016,260
Debt securities at amortized cost	32,877,476	32,016,260
Foreign equity securities, unquoted	39,119	40,880
Equity securities at fair value through other comprehensive income	39,119	40,880
Total	156,073,465	154,932,221
Current	128,007,846	130,379,971
Non-current	28,065,619	24,552,250

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. (2019: from 0% to 6% p.a.). Foreign securities at fair value through profit and loss include accrued interest in the amount of MKD 635,686 thousand (2019: MKD 869,699 thousand).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***17. Foreign securities (Continued)**

Securities at amortized cost bear fixed income with interest at a rate ranging between 0.2% and 5.5% p.a. (2019: from 0.2% to 5.5% p.a.). Foreign securities at amortized cost include accrued interest in the amount of MKD 255,365 thousand (2019: MKD 268,430 thousand).

As at 31 December 2020, the impairment of securities at amortized cost amounted to MKD 16,792 thousand (31 December 2019: MKD 7,714 thousand). The movement of the impairment of securities at amortized cost is shown in the table below:

	Note	2020	2019
Balance as at 1 January		7,714	11,121
Increase of impairment on securities at amortized cost	14	12,214	213
(Released) impairment on securities at amortized cost	14	(3,163)	(3,625)
Effect of unrealized foreign exchange rate differences		27	5
Balance as at 31 December		16,792	7,714

Equities are composed of 430 ordinary 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

In 2019 the National Bank entered into derivatives - interest rate futures and bond futures within a portfolio managed by the World Bank, as well as in its own portfolio, while in the period from January to March 2020, the National Bank entered into derivatives futures within its own portfolio. As of 31 December 2020 the National Bank has no open futures positions.

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

19. Gold

	2020	2019
Sight gold deposits	17,692,169	1,300,634
Term gold deposits	3,315,887	17,233,046
Gold in the National Bank vault	38,333	33,770
Total	21,046,389	18,567,450
Current	21,046,389	18,567,450

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***19. Gold (Continued)**

As of 31 December 2020, the National Bank total gold reserves were 221,521.1497 ounces (2019: 221,786.4357 ounces) at a fair value of US Dollar 1,891.10 (MKD 95,000) per ounce (2019: US Dollar 1,523.00 or MKD 83,692 per ounce).

Interest rates on term gold deposits in 2020 ranged between 0.01% and 0.11% p.a. for gold deposits based on the price of gold in US Dollar (2019: interest rate between 0.01% and 0.20 % p.a.). As of 31 December 2020, term gold deposits include accrued interest in the amount of MKD 1,885 thousand (2019: MKD 5,790 thousand).

20. Special Drawing Rights

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. As of 31 December 2020 the special drawing rights amount to MKD 38,773 thousand (2019: MKD 171,857 thousand).

This current account bears interest in the amount of the so-called IMF basic rate. In 2020, the basic rate ranged from 0.050% to 0.750% p.a. (2019: from 0.740% to 1.153% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 43).

21. Receivables from Government related to IMF

	2020	2019
Receivable based on the usage of borrowed funds - RFI ⁸ (Note 38b)	10,229,836	-
Receivable related to general and special net cumulative allocation	4,165,801	4,353,244
Receivable related to SDR inherited allocation	609,802	637,241
Total	15,005,439	4,990,485
Current	15,005,439	4,990,485

Counterpart of these active balance sheet positions are payables based on SDR allocation and borrowing from the IMF, on behalf and for the account of the Government (notes 38a and 38b).

22. Government securities

	2020	2019
Securities at amortized cost		
Bond for selective credits	1,039,318	1,031,338
Total	1,039,318	1,031,338
Current	1,039,318	1,031,338

⁸ Rapid Financing Instrument.

22. Government securities (Continued)

The bond for selective credits which was 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 was fully due in April 2020, but as a result of numerous measures taken by the Government for maintaining of the Budget of the Republic of North Macedonia, the maturity of the bond was extended until 1 April 2021⁹. The bond had a nominal value amounted at MKD 1,039,318 thousand and was non-interest bearing. This bond was valued at amortized cost and was amortized to the maturity of the bond i.e. 1 April 2020.

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.

The quota of the Republic of North Macedonia for membership in the IMF stands at MKD 10,881,508 thousand at the end of 2020, account no. 1 amounts to MKD 27,272 thousand and account no. 2 amounts to MKD 158 thousand (2019: MKD 10,721,616 thousand, MKD 26,871 thousand, and MKD 155 thousand respectively for the three positions). The differences are due to the valuation of these positions at the SDR exchange rate as of 30 April 2020, according to the IMF financial year (Note 38c).

24. Loans to banks

	2020	2019
Long-term loans from the conversion of the selective credits from 1996	-	15,912
Total	-	15,912
Current	-	15,912

⁹ According to the Decree with force of law on the application of the Law on Restructuring and Rehabilitation of a Portion of the Banks in the Republic of Macedonia during the state of emergency No. 44-2598/1 of 27 March 2020, Official Gazette of the Republic of North Macedonia No.82 of 27 March 2020.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***24. Loans to banks (Continued)**

The receivables based on long term loans originated 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 SFRY¹⁰. Receivables from domestic banks based on loans (converted in 1996) in the amount of MKD 15,912 thousand were due and collected on 31 March 2020. The loans bore annual interest rate of 1.5%, payable semiannually.

25. Other receivables

	2020	2019
Receivables from bank under bankruptcy	730,039	730,039
Due auction deposits	5,268	5,268
Total	735,307	735,307
Impairment	(735,307)	(735,307)
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.

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).

In 2019, the National Bank collected part of the receivable in the amount of MKD 3,000 thousand (note 14). In 2020, there was no collection of part of the receivables, neither foreclosed assets based on uncollected receivables.

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.

¹⁰ Former Yugoslavia – Socialist Federal Republic of Yugoslavia.

25. Other receivables (Continued)

The movements in impairment of other receivables are as follows:

	2020	2019
Balance as at 1 January	735,307	749,258
(Release) of impairment of other receivables (Note 14)	-	(3,000)
(Release) of impairment of other receivables based on foreclosed assets	-	(10,951)
Balance as at 31 December	735,307	735,307

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2020
(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 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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2020

(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 2020								
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)
As at 1 January 2020, net carrying amount	365,146	60,205	64,252	4,853	503,913	998,369	12,789	1,011,158
Additions								
- Cost	-	11,747	109	51	304,816	316,723	-	316,723
Disposals and write-offs:								
- Cost	-	(21,126)	-	-	-	(21,126)	(15)	(21,141)
- Accumulated depreciation	-	21,124	-	-	-	21,124	15	21,139
Depreciation for the year	(25,860)	(28,700)	-	-	-	(54,560)	(641)	(55,201)
As at 31 December 2020	339,286	43,250	64,361	4,904	808,729	1,260,530	12,148	1,272,678
As at 31 December 2020								
Cost	814,013	563,362	64,361	4,904	808,729	2,255,369	34,149	2,289,518
Accumulated depreciation	(474,727)	(520,112)	-	-	-	(994,839)	(22,001)	(1,016,840)
Net carrying amount	339,286	43,250	64,361	4,904	808,729	1,260,530	12,148	1,272,678

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.

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 2020 the National Bank made investments in assets under construction related to the new business premises in the amount of MKD 304,781 thousand (2019: MKD 135,552 thousand) (Note 44b).

As at 31 of December 2020 and 2019, the National Bank has no pledged property and equipment.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***27. Intangible assets**

	2020	2019
Balance as at 1 January		
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
Additions		
- Cost	21,150	7,012
- Transfer of assets under construction	-	63
Disposals and write-offs:		
- Cost	(3,387)	-
- Accumulated amortization	3,387	-
Amortization charge	(15,425)	(14,468)
Assets under construction	615	(63)
Balance as at 31 December	28,805	22,465
Balance as at 31 December		
Cost	262,479	244,716
Assets under construction	6,103	5,488
Accumulated amortization	(239,777)	(227,739)
Net carrying amount	28,805	22,465

28. Coins from precious metals

Coins from precious metals as at 31 December 2020 amounted to MKD 5,436 thousand (2019: MKD 5,235 thousand).

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 2020, the National Bank held a total of 173 gold coins and 26 silver coins (as at 31 December 2019: 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.

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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***28. Coins from precious metals (Continued)**

As at 31 December 2020, the National Bank held a stock of 306 pieces of collector coins (as at 31 December 2019: 400 pieces). Revenue from the sale of collector coins is shown in Note 11.

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:

	2020	2019
Compensations and fees	33,282	40,816
Receivables for maintenance of premises	2,044	2,128
Other receivables	406,961	405,941
Impairment of other receivables	(406,961)	(405,941)
Total	35,326	42,944

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

	2020	2019
Balance as at 1 January	405,941	405,274
Increase of impairment of operating receivables (Note 14)	41	320
Increase of impairment of receivables from fees and commissions (Note 14)	922	344
Increase of impairment of interest receivables (Note 14)	52	-
Increase of doubtful receivables	5	3
Balance as at 31 December	406,961	405,941

30. Other assets

	2020	2019
Advances	65,739	115,614
Prepaid expenses for printing banknotes	133,508	84,420
Office and other materials	11,348	10,076
Other accrued expenses	4,362	4,366
Assets on other basis	385	668
Foreclosed assets for uncollected receivables	55,848	55,848
Impairment on foreclosed assets for uncollected receivables	(55,848)	(55,848)
Total	215,342	215,144
Current	203,994	205,068
Non-current	11,348	10,076

Advances are prepaid funds in accordance with the contracts related with the new office building.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2020
(Amounts expressed in thousands of MKD unless otherwise stated)
31. Currency in circulation

Currency in circulation comprises the following:

2020				2019	
MKD	Nominal value	Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Currency in circulation (legal tender)					
Banknotes	100	15,466,369	1,546,637	15,666,078	1,566,608
	200	2,281,641	456,328	1,394,597	278,919
	500	12,820,252	6,410,126	9,482,457	4,741,229
	1000	21,850,594	21,850,594	21,361,053	21,361,053
	2000	8,924,758	17,849,516	6,748,268	13,496,536
Total banknotes			48,113,201	41,444,345	
Polymer banknotes	10	24,374,586	243,746	22,505,566	225,056
	50	5,347,367	267,368	5,077,438	253,872
Total polymer banknotes			511,114	478,928	
Coins	1	110,399,232	110,399	108,453,279	108,453
	2	78,202,945	156,406	71,591,888	143,184
	5	42,170,684	210,854	39,554,776	197,774
	10	34,334,824	343,348	34,988,737	349,887
	50	5,798,903	289,945	6,108,264	305,413
Total coins			1,110,952	1,104,711	
Total currency in circulation (legal tender)			49,735,267	43,027,984	
Currency in circulation - Collector coins					
Coins	10	90,902	909	82,280	823
	100	96,576	9,658	96,484	9,648
	1000	557	557	557	557
	2000	45	90	25	50
Total currency in circulation – Collector coins			11,214	11,078	
Currency in circulation – Not a legal tender					
Coins	0.5	4,333,792	2,167	4,311,792	2,156
Banknotes	10	16,938,061	169,381	16,952,205	169,522
Banknotes	50	2,255,406	112,770	2,258,083	112,904
Banknotes	5000	1,829	9,145	2,095	10,475
Total currency in circulation – Not a legal tender			293,463	295,057	
Total currency in circulation			50,039,944	43,334,119	

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***32. Bank deposits**

	2020	2019
Bank deposits in MKD	19,164,505	32,879,842
Bank deposit facilities in MKD with the National Bank	45,296,013	29,599,019
Bank deposit in foreign currency RTGS - EUR	3,758,053	2,591,348
Bank deposit in foreign currency	431,724	-
Total	68,650,295	65,070,209
Current	68,650,295	65,070,209

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 facilities with the National Bank. The maturities of the deposits are: one working day (overnight deposits) and seven days, without possibility for early withdrawal, in part or in total amount.

The interest rate on overnight deposit in 2020 was 0.15% p.a. (2019: 0.15% p.a.). The interest rate on 7-day deposit in 2020 was 0.3% p.a. (2019: 0.3% p.a.). Seven-day deposits include accrued interest in the amount of MKD 13 thousand (2019: MKD 20 thousand).

For settlement purposes of domestic banks, the National bank has open accounts in Euros in RTGS for connection to TARGET 2 Euro payment system.

In August 2020, the possibility for domestic banks to place deposit in foreign currency in the National Bank through auctions was reactivated. As of 31 December 2020, banks have placed deposits in foreign currency with a maturity of one month. The interest rate on placed deposits in foreign currency during 2020 was -0.40% p.a. Bank deposits in foreign currency include accrued interest in the amount of MKD 134 thousand (2019: none).

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

	2020	2019
Banks' foreign exchange reserve requirement	17,374,836	16,347,950
Savings houses' MKD reserve requirement	24,756	24,963
Total	17,399,592	16,372,913
Current	17,399,592	16,372,913

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

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.

The National Bank determines the 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 2020 was -0.5% p.a. (in the period from January to the first half of September 2019 the interest rate was -0.4%, while from second half of September to December 2019 decreased and was -0.5% 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 2020 was -0.65% p.a. (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.).

Banks' reserve requirement in foreign currency include receivables based on accrued interest in the amount of MKD 4,065 thousand (2019: MKD 5,021 thousand).

34. National Bank bills issued

In 2020, the National Bank used a tender with limited volume and fixed interest rate. In January 2020, the National Bank bill interest rate decreased by 0.25 p.p. to 2.00%. Additionally, to support the credit activity in March 2020, the interest rate was cut by another 0.25 p.p. to 1.75% effective from 1 April 2020. In May 2020, the interest rate was reduced by an additional 0.25 p.p. and by the end of 2020, it was 1.5% (2019: the National Bank used a tender with limited volume and fixed interest rate which in the period from January to the first half of March 2019 was 2.5%, while in the period from the second half of March to December 2019, the interest rate decreased and was 2.25% p.a.).

In order to release additional liquidity, the National Bank reduced the offered volume of National Bank bills in the amount of MKD 15,000,000 thousand in April and May 2020.

As of 31 December 2020, the accrued interest on National Bank bills amounted to MKD 6,239 thousand (2019: MKD 30,883 thousand).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***34. National Bank bills issued (Continued)**

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

	2020	2019
Balance as at 1 January	24,745,813	24,972,267
National Bank bills, inflows	171,786,000	298,344,000
National Bank bills, outflows	(186,555,000)	(298,575,000)
Discount (inflows)	17,776	4,546
Balance as at 31 December	9,994,589	24,745,813

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.

	2020	2019
Single Treasury account	22,817,069	22,416,963
Other MKD deposits	715,060	1,256,586
Total	23,532,129	23,673,549
Current	23,532,129	23,673,549

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 Bank¹¹. The interest rate on government MKD deposits equals the interest rate on overnight deposit facilities of the National Bank.

In 2020, the interest paid by the National Bank on these deposits was 0.15% p.a. (2019: 0.15% p.a.). Government deposits include accrued interest in the amount of MKD 775 thousand (2019: 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 2020, these deposits amounted to MKD 22,465,832 thousand (2019: MKD 13,613,528 thousand).

¹¹ D. No. 02-15/XIV-3/2016 of 15 December 2016, Official Gazette of the Republic of Macedonia No. 218 of 20 December 2016. The interest for government sight deposits is paid up to a predetermined amount depending on the deposits' currency, which for MKD deposits is 6,000,000 thousand MKD.

36. Government foreign currency deposits (Continued)

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 2020 and 2019, the interest rate on overnight deposit facilities was negative and was -0.505% and -0.45% respectively, and according with the Decision no interest on these deposits is accrued.

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 2020, the balance of the restricted deposits was MKD 140,819 thousand (2019: MKD 260,404 thousand).

38. Payables to IMF

Payables to IMF comprise liabilities on the basis of net cumulative allocation, borrowing from IMF - on behalf and for the account of the Government 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 the 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 in the amount of MKD 609,802 thousand (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 MKD 3,717,334 thousand (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 MKD 448,467 thousand (SDR 6,161,937).

Total liability of the Republic of North Macedonia for the SDR allocation at the end of 2020 amounted to MKD 4,775,603 thousand or SDR 65,616,876 (2019: MKD 4,990,485 thousand or 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.

38. Payables to IMF (Continued)**a) Payables based on Special Drawing Rights Allocation – on behalf and for the account of the Government (Continued)**

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.

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

	2020	2019
Borrowing from IMF - on behalf and for the account of the Government (Note 21)	10,229,836	-
Total	10,229,836	-
Non-current	10,229,836	-

In April 2020, the Government borrowed SDR 140,300 thousand (100% of the quota) from IMF through the Rapid Financing Instrument (RFI) that provides support to the Budget of the Republic of North Macedonia¹². The repayment period of the withdrawn amount from the instrument is from three years and three months to five years upon withdrawal. The repayment of the withdrawn amount from the instrument will be made in eight equal quarterly installments. Repayment of the first installment will begin in July 2023. The interest rate on the withdrawn amount from the instrument is set according to the IMF rules and in accordance with the financing conditions applicable to the Rapid Financing Instrument.

As of 31 December 2020, borrowing from IMF on behalf and for the account of the Government includes accrued interest in the amount of MKD 18,788 thousand (2019: none).

¹² According to the "Decree with force of law for the Republic of North Macedonia to borrow funds from IMF for financial support from the Rapid Financing Instrument during a state of emergency." no. 44-3062/1 of 13 April 2020, "Official Gazette of the Republic of North Macedonia" No. 100 of 13 April 2020.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***38. Payables to IMF (Continued)****c) Payables based on membership and deposits:**

	2020	2019
Liabilities based on issued promissory notes for membership in the IMF	10,881,508	10,721,616
Liabilities based on account 1	27,272	26,871
Liabilities based on account 2	158	155
Total	10,908,938	10,748,642
Current	10,908,938	10,748,642

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 SDR 68,900 thousand to SDR 140,300 thousand. The National Bank, as a fiscal agent of the Republic of North Macedonia, has issued promissory notes for membership in the IMF (Note 23).

39. Other deposits

	2020	2019
Liabilities based on MKD deposits to other domestic entities	2,473,781	2,237,773
Liabilities based on MKD deposits to international financial institutions (IBRD, IDA and MIGA)	10,469	12,119
Total	2,484,250	2,249,892
Current	2,484,250	2,249,892

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 MKD accounts of the representative offices of 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 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***40. Provisions**

	2020	2019
Provisions for potential liabilities based on litigations with legal entities	247	-
Total	247	-

Provisions for potential liabilities on litigations pertain to the amount of principal and interest the National Bank expects to pay to the legal entity who instituted proceedings against the National Bank, once the legal proceedings are final (Note 14).

The movement of the provisions for potential liabilities on litigations is shown in the table below:

	2020	2019
Balance as at 1 January	-	-
Charged provisions for potential liabilities based on litigations with legal entities (Note 14)	247	-
Balance as at 31 December	247	-

41. Other payables

Payables are analyzed as follows:

	2020	2019
Deposited funds from confiscated foreign currencies and deposited guarantees	285,690	309,387
Liabilities based on BNT bankruptcy	144,901	144,901
Payables for long-term employee benefits	38,511	35,333
Payables for allocation of net income	32,618	28,328
Liabilities to suppliers and other liabilities	33,803	28,462
Tax liabilities	20,326	8,518
Jubilee coins counterpart	5,229	4,777
Lease liabilities	2,709	3,640
Deferred income	4,214	8,446
Total	568,001	571,792

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.

41. Other payables (Continued)

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 2.559% on long-term bonds issued by our country during 2020 with a maturity of 5 and over 5 years.

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).

42. Capital and reserves*Capital*

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2020, it amounted to MKD 1,289,789 thousand (2019: 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 reserves¹³, 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 account¹⁴, 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.

	2020	2019
General reserves	1,326,756	1,321,000
Special reserves	717,417	627,877

Other reserves

	2020	2019
Other reserves from unrealized price and exchange rate differences		
- Other reserves from foreign exchange rate differences	-	1,049,592
- Other reserves from price and exchange rate differences of gold	11,167,534	8,674,225
- Other reserves from price differences of securities at fair value through profit and loss	139,779	146,187
Total	11,307,313	9,870,004

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.

¹³ Defined as revaluation reserve accounts in the Law on the National Bank of the Republic of Macedonia.

¹⁴ Defined as special reserve account in the Law on the National Bank of the Republic of Macedonia.

42. Capital and reserves (Continued)

Other reserves (Continued)

As of 31 December 2020, other reserves from foreign exchange rate differences from foreign exchange assets and liabilities are MKD 0 due to coverage of net unrealized negative foreign exchange rate differences in the amount of MKD 1,049,592 thousand (2019: decrease of MKD 104,873 thousand on the basis of net unrealized negative foreign exchange rate differences).

Other reserves from price and exchange rate differences of gold for 2020 increased by MKD 2,493,309 thousand from which:

- Increase of MKD 2,504,897 thousand as a result of the allocation of the net unrealized positive price and foreign exchange rate differences of gold (2019: 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) and
- Decrease of MKD 11,588 thousands as a result of realized exchange rate and price differences from transactions in gold during 2020, which were added to the distributable earnings in 2020 (2019: MKD 112,353 thousand).

Other reserves from price differences of securities at fair value through profit and loss for 2020 decreased on a net basis by MKD 6,408 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 53,107 thousand on the "security by security" principle (2019: net unrealized positive price differences from securities at fair value through profit and loss in amount of MKD 98,500 thousand);
- Decrease of MKD 26,436 thousand as a result of realized price changes of securities, which were added to the distributable earnings for 2020 (2019: realized price changes of securities in the amount of MKD 35,612 thousand and realized price differences of derivatives - futures in the amount of MKD 5,335 thousand or in total amount of MKD 40,947 thousand); and
- Decrease of MKD 33,079 thousand as a result of covering the net unrealized negative price changes of securities at fair value through profit and loss (2019: MKD 53 thousand).

Other reserves from art works and library fund as of 31 of December 2020 amounted to MKD 4,035 thousand (2019: MKD 3,993 thousand). The increase in other reserves of MKD 42 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 2020***(Amounts expressed in thousands of MKD unless otherwise stated)***43. Cash and cash equivalents**

	2020	2019
Foreign currencies (Note 15)	3,417,438	52,442
Foreign currency deposits (Note 16)	26,748,038	26,936,716
Special Drawing Rights (Note 20)	38,773	171,857
Total	30,204,249	27,161,015

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

The National Bank is a defendant in several legal proceedings arising from its operations. On 31 December 2020, the litigations were valued at MKD 123,666 thousand (2019: MKD 123,666 thousand). The National Bank contests these receivables and based on legal advice considers that no significant material liabilities will be incurred.

In 2020, the National Bank allocated provisions in the amount of MKD 247 thousand for potential liability based on litigations for which it expects to pay to the legal entity who instituted the proceedings (Note 14 and 40).

For the other litigations, 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 2020, the National bank has commitments valued at MKD 751,695 thousand (2019: MKD 1,014,995 thousand), which are expected to be settled in the next year.

45. 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 41.

46. Events after the date of the statement of financial position

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