

**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 2018**

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## INDEPENDENT AUDITOR'S REPORT

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

### *Opinion*

We have audited the financial statements of the National Bank of the Republic of North Macedonia ("the National Bank"), which comprise the statement of financial position as at December 31, 2018, 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, 2018, 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.

Deloitte DOO Skopje  
Bul. Partizanski Odredi br. 15A, Skopje

March 4, 2019

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## **GENERAL INFORMATION**

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

Anita Angelovska- Bezhoska, Governor (since 22 May 2018)  
Dimitar Bogov, Governor (until 21 May 2018)  
Fadil Bajrami, Vice Governor  
Emilija Nacevska, Vice Governor (since 18 October 2018)  
Ana Mitreska, Vice Governor (since 18 October 2018)  
Maja Kadievska-Vojnovik, Vice Governor (until 13 July 2018)  
Anita Angelovska - Bezhoska, Vice Governor (until 21 May 2018)  
Aleksandar Stojkov, non-executive member  
Metodij Hadzi Vaskov, non-executive member  
Mihail Petkovski, non-executive member  
Liman Kurtisi, non-executive member  
Sinisa Naumovski, non-executive member (since 24 October 2018)

### **Registered office**

Blvd. Kuzman Josifovski Pitu 1  
1000, Skopje

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***INCOME STATEMENT**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
Interest income		285,651	324,162
Interest expense		(799,226)	(947,981)
Effects of negative interest rates		(21,496)	(13,908)
<b>Net interest expense</b>	<b>5</b>	<b>(535,071)</b>	<b>(637,727)</b>
Fee income		308,039	292,360
Fee expense		(40,389)	(35,435)
<b>Net fee income</b>	<b>6</b>	<b>267,650</b>	<b>256,925</b>
Net unrealized price and exchange rate differences	7	561,348	(6,701,591)
Net result from securities at fair value through profit and loss and derivatives	8	(491,036)	184,564
Net realized price and exchange rate differences	9	488,539	412,096
Dividend income	10	7,511	9,761
Other income	11	25,254	23,961
Personnel expenses	12	(433,044)	(420,801)
Depreciation and amortization charge	27,28	(70,269)	(73,064)
Other expenses	13	(238,215)	(227,215)
Impairment	14	4,582	(28,130)
<b>Loss for the year, net</b>		<b>(412,751)</b>	<b>(7,201,221)</b>

**STATEMENT OF COMPREHENSIVE INCOME**

	<b>2018</b>	<b>2017</b>
<b>Loss for the year from the Income statement, net</b>	<b>(412,751)</b>	<b>(7,201,221)</b>
Other comprehensive income		
- Gains on received books donations - library fund	255	612
<b>Other comprehensive income for the year</b>	<b>255</b>	<b>612</b>
<b>Total comprehensive loss for the year</b>	<b>(412,496)</b>	<b>(7,200,609)</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**  
**Financial Statements for the year ended 31 December 2018**  
*(Amounts expressed in thousands of MKD unless otherwise stated)*

**STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>Note</b>	<b>As at 31 December</b>	
		<b>2018</b>	<b>2017</b>
Foreign currencies	15	132,874	216,605
Foreign currency deposits	16	23,825,660	22,321,596
Foreign securities	17	136,944,576	106,187,422
Derivatives	18	-	-
Gold	19	15,246,957	14,723,366
Special Drawing Rights	20	217,871	253,633
Receivables from Government related to IMF	21	4,899,081	4,804,671
Government securities	22	1,000,024	969,662
<b>Receivables from Government</b>		<b>5,899,105</b>	<b>5,774,333</b>
IMF Membership	23	10,279,290	10,890,647
Loans to banks	24	15,912	15,912
Other receivables	25	-	-
<b>Receivables from banks</b>		<b>15,912</b>	<b>15,912</b>
Non - current assets held for sale or disposal groups	26	-	-
Property and equipment	27	913,919	812,825
Intangible assets	28	29,921	37,720
Coins from precious metals	29	4,426	4,825
Operating receivables	30	43,229	35,606
Other assets	31	316,395	344,780
<b>Total assets</b>		<b>193,870,135</b>	<b>161,619,270</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**  
**Financial Statements for the year ended 31 December 2018**  
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**STATEMENT OF FINANCIAL POSITION (Continued)**

LIABILITIES AND EQUITY	Note	As at 31 December	
		2018	2017
Currency in circulation	32	39,835,161	36,215,863
Bank deposits	33	43,200,539	32,840,951
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	34	15,649,050	14,094,499
National Bank bills issued	35	24,972,267	24,977,473
Government MKD deposits	36	22,283,839	16,352,067
Government foreign currency deposits	37	19,897,777	7,982,657
<b>Government deposits</b>		<b>42,181,616</b>	<b>24,334,724</b>
Restricted deposits	38	258,021	1,875,226
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	39a	4,899,081	4,804,671
Payables based on membership and deposits	39b	10,279,290	10,890,647
<b>Payables to IMF</b>	<b>39</b>	<b>15,178,371</b>	<b>15,695,318</b>
Other deposits	40	2,073,406	604,389
Other payables	41	209,464	200,657
Other liabilities	42	368,754	396,591
<b>Other liabilities</b>		<b>578,218</b>	<b>597,248</b>
<b>Total liabilities</b>		<b>183,926,649</b>	<b>151,235,691</b>
Capital		1,289,789	1,289,789
General reserves		1,316,002	1,311,586
Special reserves		550,114	481,426
Other reserves		6,787,581	7,300,778
<b>Total capital and reserves</b>	<b>43</b>	<b>9,943,486</b>	<b>10,383,579</b>
<b>Total liabilities and equity</b>		<b>193,870,135</b>	<b>161,619,270</b>

The notes on pages 9 to 75 are an integral part of these financial statements



**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**
**Financial Statements for the year ended 31 December 2018**
*(Amounts expressed in thousands of MKD unless otherwise stated)*

<b>STATEMENT OF CHANGES IN EQUITY</b>								
	<b>Note</b>	<b>Capital</b>	<b>General reserves</b>	<b>Special reserves*</b>	<b>Other Reserves**</b>	<b>Art works revaluation and library fund</b>	<b>Accumulated gain/loss</b>	<b>Total capital and reserves</b>
<b>As at 1 January 2017</b>		<b>1,289,789</b>	<b>1,309,305</b>	<b>445,956</b>	<b>14,548,988</b>	<b>3,071</b>	<b>-</b>	<b>17,597,109</b>
Loss for the year		-	-	-	-	-	(7,201,221)	(7,201,221)
Gains on received books donations - library fund		-	-	-	-	612	-	612
<b>Total comprehensive loss for 2017</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>612</b>	<b>(7,201,221)</b>	<b>(7,200,609)</b>
Net unrealized negative price and exchange rate differences of gold	43	-	-	-	(330,298)	-	330,298	-
Net unrealized negative foreign exchange rate differences	43	-	-	-	(6,371,293)	-	6,371,293	-
Net unrealized positive price differences of securities and derivatives	43	-	-	-	12,251	-	(12,251)	-
Net unrealized negative price differences of securities settling by other reserves	43	-	-	-	(3,021)	-	3,021	-
Realized price and exchange rate differences of gold	43	-	-	-	(445,662)	-	445,662	-
Realized price differences of securities and derivatives	43	-	-	-	(113,870)	-	113,870	-
Transfer to general reserves		-	2,281	-	-	-	(2,281)	-
Transfer to the special reserves		-	-	35,470	-	-	(35,470)	-
Transfer to the Budget of the Republic of North Macedonia		-	-	-	-	-	(12,921)	(12,921)
<b>As at 31 December 2017</b>		<b>1,289,789</b>	<b>1,311,586</b>	<b>481,426</b>	<b>7,297,095</b>	<b>3,683</b>	<b>-</b>	<b>10,383,579</b>
Effects of IFRS 9 applied on 1 January 2018		-	-	-	-	-	(2,575)	(2,575)
<b>As at 1 January 2018</b>		<b>1,289,789</b>	<b>1,311,586</b>	<b>481,426</b>	<b>7,297,095</b>	<b>3,683</b>	<b>(2,575)</b>	<b>10,381,004</b>
Loss for the year		-	-	-	-	-	(412,751)	(412,751)
Gains on received books donations - library fund		-	-	-	-	255	-	255
<b>Total comprehensive loss for 2018</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>255</b>	<b>(412,751)</b>	<b>(412,496)</b>
Net unrealized positive price and exchange rate differences of gold	43	-	-	-	528,432	-	(528,432)	-
Net unrealized positive foreign exchange rate differences	43	-	-	-	32,916	-	(32,916)	-
Net unrealized positive price differences of securities and derivatives	43	-	-	-	87,631	-	(87,631)	-
Net unrealized negative price differences of securities covered by revaluation reserves	43	-	-	-	(332)	-	332	-
Realized price and exchange rate differences of gold	43	-	-	-	(1,151,236)	-	1,151,236	-
Realized price differences of securities and derivatives	43	-	-	-	(10,863)	-	10,863	-
Transfer to general reserves		-	4,416	-	-	-	(4,416)	-
Transfer to the special reserves		-	-	68,688	-	-	(68,688)	-
Transfer to the Budget of the Republic of North Macedonia		-	-	-	-	-	(25,022)	(25,022)
<b>As at 31 December 2018</b>		<b>1,289,789</b>	<b>1,316,002</b>	<b>550,114</b>	<b>6,783,643</b>	<b>3,938</b>	<b>-</b>	<b>9,943,486</b>

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

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

The notes on pages 9 to 75 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)*

<b>STATEMENT OF CASH FLOWS</b>			
	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Cash flow from operating activities</b>			
<b>(Loss) for the year</b>		<b>(412,751)</b>	<b>(7,201,221)</b>
Adjusted for:			
Interest income	5	(285,651)	(324,162)
Interest expense	5	799,226	947,981
Effects of negative interest rates	5	21,496	13,908
Net unrealized price and exchange rate differences of gold		(511,826)	249,864
Net income from securities at fair value through profit and loss and derivatives		(113,890)	(145,661)
Dividends		(7,511)	(9,761)
Impairment		(4,582)	28,130
Depreciation and amortization charge	27,28	70,269	73,064
<b>Cash flows from operating activities, before changes in operating assets and liabilities</b>		<b>(445,220)</b>	<b>(6,367,858)</b>
Term deposits over 90 days		(4,612,125)	1,229,710
Gold		(11,688)	(19,219)
Foreign securities		(30,718,088)	23,197,058
Other assets		34,623	(89,594)
Currency in circulation		3,619,298	1,785,822
Bank deposits		10,362,577	(2,837,170)
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		1,554,551	(5,769)
Government deposits, including restricted and other deposits		17,699,221	(10,508,771)
Other liabilities		(33,706)	(93,237)
Interest received		317,247	361,856
Interest paid		(825,778)	(1,028,161)
Dividends received		7,511	9,761
<b>Net cash flows from/(used for) operating activities</b>		<b>(3,051,577)</b>	<b>5,634,428</b>
Non - current assets or disposal groups held for sale		-	78,995
Acquisition of property, equipment and intangible assets		(163,309)	(158,209)
<b>Net cash flows used in investing activities</b>		<b>(163,309)</b>	<b>(79,214)</b>
National Bank bills, inflows		299,803,000	322,130,000
National Bank bills, outflows		(299,803,000)	(320,130,000)
Net income paid to the Budget of the Republic of North Macedonia		(12,921)	(63,900)
<b>Net cash flows from/(used for) financing activities</b>		<b>(12,921)</b>	<b>1,936,100</b>
Net decrease/increase in cash and cash equivalents		(3,227,807)	7,491,314
<b>Cash and cash equivalents at the beginning of the year</b>		<b>22,791,834</b>	<b>15,300,520</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>44</b>	<b>19,564,027</b>	<b>22,791,834</b>

**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 remainder shall be allocated to general reserves until reaching the level of core capital i.e. 15% after reaching the level of core capital. If the National Bank 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 assets falls below the sum of its liabilities and capital, the shortage will be covered by the Government of the Republic of North Macedonia with cash or negotiable debt instruments with a specified maturity issued at market interest rates prevailing in the Republic of North Macedonia.

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

The total number of employees as of 31 December 2018 is 446 (as of 31 December 2017: 446).

The financial statements were adopted by the National Bank Council on 28 February 2019 and signed by the chairperson of the National Bank Council on its behalf:



Anita Angelovska Bezhoska,

Chairperson of the National Bank Council



Vesna Filipovska,

Manager

Finance, Accounting and Controlling

## **2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

### **A Basis of preparation of financial statements**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretation Committee (IFRIC).

The financial statements are prepared under the historical cost convention, as a measurement base, except for certain assets which are measured at fair value. Assets measured at fair value are financial assets at fair value through profit and loss, financial derivatives, and art works. Property, equipment, and intangible assets are measured at cost less accumulated depreciation and impairment losses.

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

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

**IFRS 9 "Financial Instruments" (IFRS 9)** replaces IAS 39 "Financial Instruments: Recognition and Measurement" and become effective for annual periods beginning after 1 January 2018. The new standard introduced extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduced a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. At the end of 2017, the National Bank adopted new accounting policies, implementing the requirements of IFRS 9 and they become effective as of 1 January 2018.

IFRS 9 affected the following National Bank operating areas:

- The National Bank's classification and measurement of financial assets after 1 January 2018 is based on new criteria that take into account the contractual cash flows of assets and the business model in which they are managed. According to these policies and the analysis of the investment in financial assets of the National Bank, the financial assets were not reclassified.
- Impairment based on expected credit losses are recognized for the National Bank's receivables and investments in financial assets that were classified as held to maturity, and on 1 January 2018 the National Bank presented expected credit losses on these assets in the amount of MKD 2,575 thousands. As of 1 of January 2018, no other transition effect on the amount of expected credit losses were reported on any financial asset held.

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

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

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

- There is no possibility to measure the equity instruments at cost less impairment and all such instruments will be measured at fair value. Changes in fair value are presented in the income statement, unless the National Bank irrevocably determines to present them in other comprehensive income. On this basis, the National Bank did not report any effect of the transition to IFRS 9 requirements.
- The classification and measurement of the National Bank financial liabilities on or after 1 January 2018 is based on the requirements of IFRS 9. In accordance with these policies, as well as the analysis of the National Bank financial liabilities, they continue to be measured at amortized cost.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018****2. Summary of significant accounting policies (Continued)****A Basis of preparation of financial statements (Continued)*****a) Initial application of new amendments to the existing standards effective for the current reporting period (Continued)***

The effects from applying IFRS 9 of financial assets are presented in the table below:

IAS 39 Classification	as of 31 December 2017	Impairment and impact on the accumulated loss on January 2018	IFRS 9 Classification	as of 1 January 2018
<b>Financial assets</b>			<b>Financial assets</b>	
<u>Loans and receivables</u>			<u>Amortized Cost</u>	
Foreign currencies	216,605		Foreign currencies	216,605
Foreign currencies deposits	22,321,596	(1)	Foreign currencies deposits	22,321,595
Special Drawing Rights	253,633	-	Special Drawing Rights	253,633
Receivable from Government related to IMF	4,804,671	-	Receivable from Government related to IMF	4,804,671
IMF Membership	10,890,647	-	IMF Membership	10,890,647
Receivables from banks	15,912	-	Receivables from banks	15,912
Operating receivables and other assets	195,858	-	Operating receivables and other assets	195,858
	<b>38,698,922</b>	<b>(1)</b>		<b>38,698,921</b>
<u>Financial assets held for trading</u>			<u>Financial assets at fair value through profit and loss</u>	
Foreign debt securities	68,644,372	-	Foreign debt securities	68,644,372
Derivatives	-	-	Derivatives	-
Gold	14,723,366	-	Gold	14,723,366
	<b>83,367,738</b>	-		<b>83,367,738</b>
<u>Securities held to maturity</u>			<u>Amortized Cost</u>	
Foreign debt securities	37,503,693	(2,574)	Foreign debt securities	37,501,119
Government securities	969,662		Government securities	969,662
	<b>38,473,355</b>	<b>(2,574)</b>		<b>38,470,781</b>
<u>Securities available for sale</u>			<u>Financial assets at fair value through other comprehensive income</u>	
Foreign equity securities	39,357	-	Foreign equity securities	39,357
	<b>39,357</b>	-		<b>39,357</b>

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

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

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

**IFRS 15 "Revenue from Contracts with Customers".** IFRS 15 presents new requirements for recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts", and several other revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under the existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after 1 January 2018.

The adoption of the standard did not lead to any material changes in the National Bank's financial statements. The National Bank's major sources of revenue scoped in IFRS 15 relate to revenue from sales of collector coins which in 2018 amounted to Denar 1,660 thousand (2017: Denar 1, 631 thousand) that reflects the consideration to which the National Bank expects to be entitled in exchange for those goods during the year ended 31 December 2018, when the performance obligation is satisfied, i.e. when 'control' of the goods underlying the performance obligation was transferred to the customers (Note 11).

**Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);

**Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied for the first time);

**Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

**Amendments to IFRS 1 and IAS 28** due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

**IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

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)**

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

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

**IFRS 16 "Leases"** was issued in January 2016, replacing IAS 17 "Leases" and related interpretations. The new standard contains guidance for recognition, measurement and disclosure of the lease contracts for both contractual parties. IFRS 16 is effective for reporting periods beginning on or after 1 January 2019. The National Bank has yet to assess the impact of this new standard on the financial statements.

**IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021);

**Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);

**Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

**Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);

**Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020);

**Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);

**Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

**Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

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

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

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

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

**IFRIC 23 "Uncertainty over Income Tax Treatments"** (effective for annual periods beginning on or after 1 January 2019).

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

**2. Summary of significant accounting policies (Continued)****B Foreign currency transactions***Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the National Bank operates ("the functional currency"). The financial statements are presented in MKD, which is the National Bank's functional and presentation currency, rounded to thousands of denars.

*Transactions and balances*

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

All exchange rate differences are recognized in the income statement.

<b>Middle exchange rate:</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
	<b>MKD</b>	<b>MKD</b>
USD	53.6887	51.2722
EUR	61.495	61.4907
SDR	74.6619	73.2231

**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 any reduction for impairment (see Note 2J).

**E Deposits with banks**

Deposits with banks are stated at amortized cost, less any reduction for impairment (see Note 2J).

**F Monetary gold**

Monetary gold consists of gold deposits held with correspondent banks and the stocks of gold bars of international standard held in the vault of the National Bank. Depending on the contracts, interest is paid in cash at the maturity date in USD or EUR. Monetary gold is part of the foreign reserves and is managed in the same way as the other financial assets included in the foreign currency reserves. Monetary gold is recorded in physical weight in troy ounces.

Monetary gold is classified as financial assets at fair value through profit and loss statement designated as such at the initial recognition and is measured at fair value. The fair value of the monetary gold is linked with the price of the gold and is calculated on the basis of the morning market price of one ounce of gold on the London Bullion Market in US Dollars, converted to MKD at the spot MKD/USD exchange rate at the date of the financial statements. Realized and unrealized gains and losses from the revaluation of gold at the end of the accounting period arising as a result of the changes in the market price and exchange rate differences of the MKD against the USD are recognized directly to the income statement. Interest from monetary gold is included in the net interest income.

**G Cash and cash equivalents**

For the statement of cash flows purpose, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: foreign currency deposits excluding any restricted deposits, foreign currencies in the National Bank vault and SDR holdings on the special account with the IMF.

**2. Summary of significant accounting policies (Continued)****H Financial assets***Classification and measurement of financial assets*

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

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

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

At 31 December 2018, National Bank has managed 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 recover solely on "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 J).

**Financial assets at fair value through other comprehensive income**

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

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

**2. Summary of significant accounting policies (Continued)****H Financial assets (Continued)***Classification and measurement of financial assets (Continued)***Financial assets at fair value through profit and loss**

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

**Initial recognition**

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

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

**I Fair value**

The fair value of investments in financial instruments traded on financial markets is determined according to listed market prices. The fair value of unquoted investments is determined by reference to the market prices of similar investments or is based on the discounted expected cash flows.

**J Impairment and uncollectibility of financial assets**

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

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

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

**2. Summary of significant accounting policies (Continued)****J Impairment and uncollectibility of financial assets (Continued)**

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

*Stage 1: expected credit loss - 12 months*

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

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

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

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

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

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

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

**K Trade and settlement date accounting**

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



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

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

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

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

**M Property and equipment**

All property and equipment, other than art works, are stated at cost less accumulated depreciation and impairment losses. Assets under construction are reported at their cost of construction including costs charged by third parties. No depreciation is charged on assets during construction. Upon completion, all accumulated costs of the asset are transferred to the relevant property and equipment category and subsequently subject to applicable depreciation rate. Gains and losses on disposal of property and equipment are recognized in the income statement.

The art works are recognized at their fair value. The differences in the fair value are recognized in other comprehensive income in the revaluation reserves for art works.

Depreciation is calculated using the straight-line method based on their estimated useful lives, as follows:

	<b>2018</b>	<b>2017</b>
Buildings	5 to 50 years	5 to 50 years
Equipment	3 to 10 years	3 to 10 years
Transport vehicles	5 to 6 years	5 to 6 years
Office furniture	5 to 10 years	5 to 10 years

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

**2. Summary of significant accounting policies (Continued)****N Intangible assets**

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

**O Impairment losses of non-financial assets**

Assets that have an indefinite useful life are not subject to depreciation and amortization and are tested annually for impairment. Assets that are subject to depreciation and amortization are reviewed at each reporting date for impairment whether events or changes in circumstances indicate that the carrying amount may not be appropriate. If such evidences exist, the recoverable amount of the assets should be assessed. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment loss are reviewed for possible reversal of the impairment loss at each reporting date.

**P Coins from precious metals**

Coins from precious metals include jubilee coins and collector coins.

Jubilee coins are not a legal tender and they typically have an artistic or collector's premium such that they are sold at prices which are higher than the intrinsic value of the metal from which they are formed. The National Bank has mints jubilee coins for commemorative anniversaries, based on Decisions of the Government. Jubilee coins are valued at a sale price as set by the National Bank Council.

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

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

**Q Fiduciary activities**

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

**2. Summary of significant accounting policies (Continued)****R Currency in circulation**

Banknotes and coins in circulation issued by the National Bank are presented in the statement of financial position as a liability in favor of the holder, at nominal value. When coins and notes are withdrawn from circulation, the relevant demand deposits liabilities are increased, while the liability in favor of the holders is decreased.

**S Short-term securities**

The short-term securities (National Bank bills) are issued only in domestic currency and are with maturity of 28/35 days. The short-term securities (National Bank bills), issued by the National Bank for monetary policy purposes, are recorded at discounted values, reflecting the consideration paid by banks to acquire them. Interest is accrued over the period to maturity. National Bank bills are recognized initially at fair value and subsequently are stated at amortized cost.

**T Deposits**

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

**U Provisions**

Provisions are recognized when the National Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**V Borrowings**

Borrowings are recognized initially at fair value net of transaction costs incurred. Subsequent to the initial recognition, interest-bearing borrowings are stated at amortized cost. If debt is settled before maturity, any difference between the amount repaid and the carrying amount is recognized in the income statement for the period.

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

**W Recognition of income and expense**

*Interest income and expense*

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

*Dividend income*

Dividends on financial assets at fair value through other comprehensive income are recognized in the income statement when the right to receive payment is established.

*Fee and other income and expense*

Fees and other income are recognized on an accrual basis.

Fees and other expenses are recognized on an accrual basis.

*Net income from financial assets at fair value through profit and loss and derivatives*

Net income from securities at fair value through profit and loss includes accrued interest from coupon securities, realized gains and losses as a result of sales and unrealized positive and negative differences in the fair value of securities at fair value through profit and loss (security-by-security principle). Gains and losses arising from the difference of the fair value of the transactions in derivative financial instruments are recognized in the income statement.

**X Unrealized price and exchange rate differences**

Unrealized price and exchange rate differences are arising as a result of translation to MKD of the value of the assets and liabilities denominated in foreign currency, and differences in the market value on the reporting date.

**Y Employment benefits**

*Pension insurance contribution - defined contributions plan*

Liabilities for defined pension insurance contributions in the pension system of the Republic of North Macedonia are recognized as a cost in the income statement for the period when the liability occurred.

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

**Y Employment benefits (Continued)**

*Other long-term employment benefits*

Other long-term employment benefits include severance payment for retirement and right of jubilee awards for employees who have worked more than 10, 20, 30 and 40 years with the employer. These benefits are specified in the Employment Law and the National Bank Labor Agreement.

The liability for long-term employment benefits, other than pension insurance contributions, is equal to the amount of the future benefits exercised by the employees on the basis of their labor over the current and past periods, discounted to its carrying amount by applying weighted interest rate on bonds issued by our country during 2018.

**Z Taxation**

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

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

The National Bank is required to calculate withholding tax for services provided by foreign legal entities as specified by the amendments to the Corporate Income Tax Law dated 31 December 2005.

**Segment reporting**

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

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

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

#### **A Credit risk**

Credit risk is the risk of a contracting party default, reduction in the value of the financial assets due to downgrade of the credit rating of the financial institutions or commercial banks that hold the foreign reserves and other financial assets or of the issuers of the instruments in which the foreign reserves are placed, as well as the risk of increasing the spread of yields between the safest government securities and other financial assets.

Foreign assets are invested in instruments issued or guaranteed by governments or government agencies, international financial institutions and multilateral development banks, commercial banks and financial institutions enjoying long-term credit rating of minimum BBB-/Baa3 or equivalent, assigned by internationally recognized rating agencies (Standard & Poor's, Moody's and/or Fitch). If credit ratings differ, a composite rating (weighted average rating) is used.

The National Bank manages the credit risk through diversification of investments. In that regard, quantitative limits for credit exposure to individual countries and financial institutions are determined. Additionally, quantitative limits are set on the exposure to the various types of securities and the size of the series issued.

The exposure of the foreign reserves to credit risk is monitored on a daily basis.

The counterparties of the National Bank are segmented into a credit rating scale, which is presented below. The purpose of the rating scale is to classify counterparties and bond issuers by credit standing. Credit standing of counterparties and bond issuers is based on the long-term rating of the credit rating agencies. The long-term counterparty ratings are assessments and opinions on a bank's ability to repay punctually its foreign and/or domestic currency deposit obligations. Issuer ratings are assessments and opinions on the ability of issuers to honor financial obligations and contracts.

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

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

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

increase of credit risk (Stage 2 and Stage 3) is based on expected credit loss for the entire economic life of the financial asset. Increase in credit risk (Stage 2 and Stage 3) is based on the expected credit loss for the entire life of the instrument. Significant increase in credit risk is considered to have occurred if the instrument, issuer, or counterparty migrates from investment to non-investment credit rating. Financial instruments whose cash flows are delayed from 30 to 90 days also migrate to Stage 2 and Stage 3, respectively, depending on the delay, unless the delay is based on operational considerations.

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

Comparative rating scale	Long-term credit rating
Investment grade	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-
Non-investment grade	BB+, BB, BB-, B+, B, B- or lower

The size and the exposure of the National Bank to credit risk is presented in the statement of financial position and the notes to the statement of financial position that describe financial assets. The credit rating exposure is the average credit rating of the financial assets, obtained from the ratings awarded by the international credit rating agencies Standard and Poor's, Moody's and/or Fitch. This manner of presentation is appropriate to the approach in the determining and the daily monitoring of the credit risk exposure in the foreign reserves management, and is prescribed by the Foreign Reserves Management and Investment Regulation, adopted by the Governor.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

The table below presents the structure of financial assets:

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
Foreign currency deposits		
- Current accounts	18,844,333	21,620,650
- Term deposits	4,981,327	700,946
Foreign securities	136,944,576	106,187,422
Gold deposits	15,219,192	14,696,544
Special Drawing Rights	217,871	253,633
Receivables from Government related to IMF	4,899,081	4,804,671
Government securities	1,000,024	969,662
Receivables from banks	15,912	15,912
Operating receivables and other assets	162,794	195,858
<b>As at 31 December</b>	<b>182,285,110</b>	<b>149,445,298</b>

The analysis of the structure of financial instruments in the National Bank indicates that there are no significant changes compared to 2017. The impairment of the exposure of the financial instruments is within Stage 1, with no other movements from one stage of exposure to another.

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

The table below presents an analysis of the financial assets that are not past due, but impaired (for financial instrument valued at amortized cost), by rating agency designation as at 31 December 2018, based on the average credit rating of the financial assets obtained from the ratings awarded by the international rating agencies Standard and Poor's, Moody's and/or Fitch:



**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

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

Financial assets which are individually impaired as at 31 December 2018 are presented in "Term deposits" (Note 16), "Foreign securities" (Note 17), "Other receivables" (Note 25) and "Operating receivables" (Note 30).

The table below presents an analysis of the financial assets that are neither past due, nor impaired, by rating agency designation as at 31 December 2017, 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:

<sup>1</sup> International Institutions

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	Special Drawing Rights	Receivables from Government	Receivables from banks	Operating receivables and other assets	Total
AAA	-	15,969,355	-	25,085,653	-	-	-	-	<b>41,055,008</b>
AA+	-	-	-	15,800,188	-	-	-	-	<b>15,800,188</b>
AA	7,374,939	1,268,777	-	13,897,794	-	-	-	-	<b>22,541,510</b>
AA-	-	941,531	700,946	6,435,008	-	-	-	-	<b>8,077,485</b>
A+	7,310,264	9,806	-	8,372,584	-	-	-	-	<b>15,692,654</b>
A	-	163,862	-	11,686,395	-	-	-	-	<b>11,850,257</b>
A-	-	7,029	-	6,792,279	-	-	-	-	<b>6,799,308</b>
II <sup>3</sup>	11,341	7,510	-	39,357	253,633	-	-	-	<b>311,841</b>
BBB+	-	-	-	16,299,164	-	-	-	-	<b>16,299,164</b>
BBB	-	3,252,780	-	1,779,000	-	-	-	-	<b>5,031,780</b>
BB- <sup>4</sup>	-	-	-	-	-	5,774,333	-	-	<b>5,774,333</b>
Unrated	-	-	-	-	-	-	15,912	195,858	<b>211,770</b>
<b>Total</b>	<b>14,696,544</b>	<b>21,620,650</b>	<b>700,946</b>	<b>106,187,422</b>	<b>253,633</b>	<b>5,774,333</b>	<b>15,912</b>	<b>195,858</b>	<b>149,445,298</b>

Financial assets which are individually impaired as at 31 December 2017 are presented in "Other receivables" (Note 25) and "Operating receivables" (Note 30).

**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 2018. 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
Gold deposits	11,416,200	11,740	-	3,791,252	-	<b>15,219,192</b>
Current accounts	12,609,053	27,701	-	5,274,519	933,060	<b>18,844,333</b>
Term deposits	368,949	-	-	-	4,612,378	<b>4,981,327</b>
Foreign securities	109,453,551	2,461,882	-	10,314,783	14,714,360	<b>136,944,576</b>
Special Drawing Rights	-	-	-	217,871	-	<b>217,871</b>
Receivables from Government	-	-	5,899,105	-	-	<b>5,899,105</b>
Receivables from banks	-	-	15,912	-	-	<b>15,912</b>
Operating receivables and other assets	-	-	162,794	-	-	<b>162,794</b>
<b>31 December 2018</b>	<b>133,847,753</b>	<b>2,501,323</b>	<b>6,077,811</b>	<b>19,598,425</b>	<b>20,259,798</b>	<b>182,285,110</b>
<b>31 December 2017</b>	<b>103,205,272</b>	<b>2,250,826</b>	<b>5,986,103</b>	<b>21,702,403</b>	<b>16,300,694</b>	<b>149,445,298</b>

<sup>3</sup> International Institutions

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

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

The National Bank monitors and manages both currency and interest rate risks as the basic market risk factors. The main objective of the National Bank in managing the market risk is explained in Note 1. Currency risk is a risk arising from a decline of the value of the financial instruments denominated in foreign currency due to the change in the exchange rates. The interest rate risk denotes a risk from reducing the market value of the financial instruments due to the unfavorable movements of interest rates. The market risk management is performed by setting quantitative limits for foreign assets risk exposure acceptable for the National Bank and they are monitored on a daily basis. 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 horizon<sup>5</sup>, and 99% and a 10-day horizon<sup>6</sup>.

In December 2018, 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 730,461 thousands (Euro 11,878,389), or 0.4% 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 605,382 thousands (Euro 9,844,416), while VAR from the change in the prices of instruments in which the foreign reserves are invested totals MKD 125,079 thousands (Euro 2,033,973).

	<b>31 December 2018</b>	<b>31 December 2017</b>
Currency risk	605,382	824,566
Interest rate risk	125,079	94,716
Total VAR	730,461	919,282

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

<sup>6</sup> 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 2018 and 31 December 2017, analyzed by currency.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2018:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign currencies	91,423	29,051	-	12,400	-	<b>132,874</b>
Foreign currency deposits	18,509,140	5,272,635	-	43,885	-	<b>23,825,660</b>
Foreign securities	130,275,843	6,628,602	40,131	-	-	<b>136,944,576</b>
Gold	-	15,246,957	-	-	-	<b>15,246,957</b>
Special Drawing Rights	-	-	217,871	-	-	<b>217,871</b>
Receivables from Government	-	-	4,899,081	-	1,000,024	<b>5,899,105</b>
IMF Membership Receivables from banks	-	-	10,279,290	-	-	<b>10,279,290</b>
Operating receivables and other assets	-	-	-	-	15,912	<b>15,912</b>
	278	4	8,789	10,968	142,755	<b>162,794</b>
<b>Total assets</b>	<b>148,876,684</b>	<b>27,177,249</b>	<b>15,445,162</b>	<b>67,253</b>	<b>1,158,691</b>	<b>192,725,039</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	39,835,161	<b>39,835,161</b>
Bank deposits	961,473	-	-	-	42,239,066	<b>43,200,539</b>
Reserve requirements	15,628,817	-	-	-	20,233	<b>15,649,050</b>
National Bank Bills issued	-	-	-	-	24,972,267	<b>24,972,267</b>
Government deposits	19,791,595	77,955	-	28,227	22,283,839	<b>42,181,616</b>
Restricted deposits	175,685	82,336	-	-	-	<b>258,021</b>
Payables to IMF	-	-	15,178,371	-	-	<b>15,178,371</b>
Other deposits	-	-	-	-	2,073,406	<b>2,073,406</b>
Other liabilities	264,690	17,121	8,789	37,049	243,608	<b>571,257</b>
<b>Total liabilities</b>	<b>36,822,260</b>	<b>177,412</b>	<b>15,187,160</b>	<b>65,276</b>	<b>131,667,580</b>	<b>183,919,688</b>
<b>Net financial position</b>	<b>112,054,424</b>	<b>26,999,837</b>	<b>258,002</b>	<b>1,977</b>	<b>(130,508,889)</b>	<b>8,805,351</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2017:

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

**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 during 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 2018 and 31 December 2017 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 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2018:

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



**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2017:

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

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

**E Liquidity risk**

Liquidity risk is the risk that insufficient liquid funds will be available to the National Bank in order to perform its normal operations. The main objective of the National Bank in managing the liquidity risk is explained in Note 1.

Liquidity is maintained by placing foreign assets on current accounts in foreign currencies, short-term deposits, and debt securities for which a developed and liquid secondary market exists. The National Bank manages the liquidity risk by determining and maintaining liquid assets at levels sufficient for conducting monetary and foreign exchange policies, timely and regular payments of the external debt and current and/or capital expenditures with foreign currency component for the account of the government, and meets the transactional needs in the management of foreign reserves. According to the Foreign Reserves Management and Investment Policy and Regulation, liquidity risk management is consistent with the best global practices. Consequently, in order to optimize the foreign reserves management, while taking into account the different commitments and purposes of the foreign reserves in different time periods, the foreign reserves are allocated in portfolios: working capital (operational portfolio), liquidity and investment portfolios. The operational portfolio provides liquidity to realize cash flows for a period of one month, and the level of the liquidity portfolio is determined dynamically, at the minimum level of the operational portfolio for the following 12 months. The operational and the liquidity portfolio is forecast at least once a year, and reviewed periodically based on the forecast of the needs for liquidity, the expected foreign currency needs of the country in the medium term and the vulnerability assessment of the balance of payments. The maximum maturity of the deposits in the operational portfolio is two weeks, whereas the maximum remaining maturity date for the debt securities is up to one month. The modified duration of the liquidity portfolio is lower than the investment portfolio and is determined depending on the market conditions and the acceptable level of interest rate risk. Availability of foreign exchange liquidity is not confined to the operational and the liquidity portfolio, when the investment in debt securities provides sufficient liquidity through their prompt conversion into foreign assets within the investment portfolio.

Regarding the liabilities in domestic currency, the National Bank is not exposed to this risk due to its central bank character.

The table below presents the cash outflows of the National Bank for non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities on the date of the statement of financial position. The amounts disclosed in the tables below are the contractual undiscounted cash flows for financial liabilities, and expected maturity dates of financial assets.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**
**Notes to the Financial Statements for the year ended 31 December 2018**
*(Amounts expressed in thousands of MKD unless otherwise stated)*
**3. Financial risk management (Continued)**
**E Liquidity risk (Continued)**

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

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****F Fair value of financial assets and liabilities**

Fair value represents the price of an asset traded (exchanged) or a liability settled at arm's length between market participants at the measurement date.

The following table summarizes the differences between the carrying amounts and fair values of those financial assets and liabilities not carried at fair value according to classes of financial instruments:

	<b>Carrying value</b>		<b>Fair value</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Financial assets</b>				
<i>Carried at amortized cost</i>				
Foreign currencies	132,874	216,605	132,874	216,605
Foreign currencies deposits	23,825,660	22,321,596	23,825,660	22,321,596
Special Drawing Rights	217,871	253,633	217,871	253,633
Receivable from Government related to IMF	4,899,081	4,804,671	4,899,081	4,804,671
IMF Membership	10,279,290	10,890,647	10,279,290	10,890,647
Receivables from banks	15,912	15,912	15,912	15,912
Operating receivables and other assets	162,794	195,858	162,794	195,858
Foreign debt securities	39,208,472	37,503,693	39,138,535	37,087,999
Government securities	1,000,024	969,662	1,000,024	969,662
	<b>79,741,978</b>	<b>77,172,277</b>	<b>79,672,041</b>	<b>76,756,583</b>
<i>Securities at fair value through other comprehensive income</i>				
Foreign equity securities	40,131	39,357	40,131	39,357
	<b>40,131</b>	<b>39,357</b>	<b>40,131</b>	<b>39,357</b>

	<b>Carrying value</b>		<b>Fair value</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Financial liabilities</b>				
<i>Carried at amortized cost</i>				
Currency in circulation	39,835,161	36,215,863	39,835,161	36,215,863
Bank deposits	43,200,539	32,840,951	43,200,539	32,840,951
Reserve requirement of banks and saving houses	15,649,050	14,094,499	15,649,050	14,094,499
National Bank bills issued	24,972,267	24,977,473	24,972,267	24,977,473
Government MKD deposits	22,283,839	16,352,067	22,283,839	16,352,067
Government foreign currency deposits	19,897,777	7,982,657	19,897,777	7,982,657
Payables to IMF	15,178,371	15,695,318	15,178,371	15,695,318
Other and restricted deposits	2,331,427	2,479,615	2,331,427	2,479,615
Other liabilities	571,257	589,921	571,257	589,921
	<b>183,919,688</b>	<b>151,228,364</b>	<b>183,919,688</b>	<b>151,228,364</b>

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

**F Fair value of financial assets and liabilities (Continued)**

**Financial assets**

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

Loans to banks are carried at amortized cost and are net of provisions for impairment. These types of loans were granted with the same interest rate and there are no other similar loans with similar characteristics. Therefore, their fair value approximates their carrying value.

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

Government securities include bonds issued by our country for specific purposes – compensation for the claims of the National Bank for approved selective loans. These bonds are not listed, and there are no other instruments with similar characteristics. The National Bank's management believes that the fair value of these securities approximates their carrying value since there are no other similar instruments with similar characteristics.

As explained in Note 17, securities at fair value through other comprehensive income include Bank for International Settlement (BIS) shares with a value of MKD 40,131 thousand (2017: MKD 39,357 thousand), and are carried at cost which is considered to present their fair value. However, due to the specific role of BIS, fair value of these shares is considered to approximate their carrying value.

**Financial liabilities**

The fair value of currency in circulation corresponds to its face value.

The fair value of deposits carried at amortized cost corresponds to their carrying values due to the fact that there are no other instruments with similar characteristics.

The fair value of the National Bank bills issued corresponds to their carrying value due to their short-term nature.

Due to the specific role, the fair value of liabilities based on IMF Membership and SDR allocation do not differ from their carrying amounts.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****F Fair value of financial assets and liabilities (Continued)****Fair value hierarchy**

Fair values are determined according to the following hierarchy:

*a) Level 1- Quoted Market Price*

Financial instruments with quoted prices for identical instruments in active markets.

*b) Level 2 - Valuation Techniques Using Observable Inputs*

Financial instruments with quoted prices for similar instruments in active market or quoted prices for identical or similar instruments in inactive market and financial instruments valued using models where all significant inputs are observable.

*c) Level 3- Valuation Techniques with Significant Non-observable Inputs*

Financial instruments valued using models where one or more significant inputs are not observable.

**Financial assets measured at fair value through income statement**

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

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

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

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

*Classification of financial assets*

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

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

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

*Fair value of financial instruments*

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

The National Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. In the Republic of North Macedonia, sufficient market experience, stability, and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which

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

*Fair value of financial instruments (Continued)*

published market prices are not readily available. The National Bank assesses its overall risk exposure and in instances in which it estimates that the value in the books may not be realized, it recognizes a value reduction. In the opinion of the National Bank, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions (Note 3F).

*Useful lives of tangible and intangible assets*

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

*Actuarial assumptions in respect of defined benefit plan*

Any cost to Bank depends on actual future experience and in particular change in discount rate and pay increase. Other factors will also change the overall liability such as the number of employees, leaving service before the retirement and the number of new employees (Notes 2Y and 41).

*Impairment of financial assets*

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



**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***5. Net interest expense****Interest income**

<b>Interest income</b>	Government	Domestic banks	Foreign entities	Other entities	<b>Total</b>	<b>Total</b>
					<b>2018</b>	<b>2017</b>
Deposits	-	-	51,346	-	<b>51,346</b>	<b>84,249</b>
Securities at amortized cost	30,363	-	168,762	-	<b>199,125</b>	<b>206,221</b>
Gold deposits	-	-	18,066	-	<b>18,066</b>	<b>22,814</b>
Reverse repos in foreign currency	-	-	13,502	-	<b>13,502</b>	<b>8,672</b>
Other interest	39	3,563	-	10	<b>3,612</b>	<b>2,206</b>
<b>Total 2018</b>	<b>30,402</b>	<b>3,563</b>	<b>251,676</b>	<b>10</b>	<b>285,651</b>	<b>324,162</b>
<b>Total 2017</b>	<b>29,482</b>	<b>2,165</b>	<b>292,515</b>	<b>-</b>	<b>324,162</b>	

**Interest expense**

<b>Interest expenses</b>	Government	Domestic banks and other financial institutions	Foreign entities	<b>Total</b>	<b>Total</b>
				<b>2018</b>	<b>2017</b>
Deposits	10,325	33,062	-	<b>43,387</b>	<b>60,132</b>
National Bank bills	-	743,322	-	<b>743,322</b>	<b>887,849</b>
Repos transactions	-	-	12,517	<b>12,517</b>	<b>-</b>
<b>Total 2018</b>	<b>10,325</b>	<b>776,384</b>	<b>12,517</b>	<b>799,226</b>	<b>947,981</b>
<b>Total 2017</b>	<b>15,208</b>	<b>932,773</b>	<b>-</b>	<b>947,981</b>	

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***5. Net interest expense (Continued)****Effects of negative interest rates**

<b>Effects of negative interest rates</b>	Domestic banks and other financial institutions	Foreign entities	<b>Total</b>	<b>Total</b>
			<b>2018</b>	<b>2017</b>
Foreign currency deposits		(39,176)	<b>(39,176)</b>	<b>(22,604)</b>
Reserve requirement of banks in foreign currency	9,174	-	<b>9,174</b>	-
Repos in foreign currency	-	59,105	<b>59,105</b>	<b>60,873</b>
Reverse repos	-	(50,599)	<b>(50,599)</b>	<b>(52,177)</b>
<b>Total 2018</b>	<b>9,174</b>	<b>(30,670)</b>	<b>(21,496)</b>	<b>(13,908)</b>
<b>Total 2017</b>	<b>-</b>	<b>(13,908)</b>	<b>(13,908)</b>	

**6. Net fee income****Fee income**

	<b>2018</b>	<b>2017</b>
Fees from providing cash to banks	87,251	73,838
Fees from domestic banks for maintaining account based on debt turnover on an account	130,972	129,340
Fees based on settlement of payments (RTGS)	36,780	40,063
Fees from foreign exchange operations	24,767	25,267
Other fees	28,269	23,852
<b>Total</b>	<b>308,039</b>	<b>292,360</b>

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

The revenues based on fees from providing cash to banks, settlement of payments through RTGS<sup>7</sup> and fee for debt turnover on an account, relate to services that the National Bank provides to domestic banks and other account holders in RTGS.

Fees from foreign exchange operations are related to the income from sale of foreign currency for public entities, as well as from payment operations on behalf of the Government with foreign countries.

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***6. Net fee income (Continued)****Fee expense**

	<b>2018</b>	<b>2017</b>
Fees from foreign banks	22,401	26,195
Fees for Securities Depositories	8,336	7,205
Fees for futures	9,417	1,646
Other fees	235	389
<b>Total</b>	<b>40,389</b>	<b>35,435</b>

Fees paid to foreign banks refer to maintenance of services for the National Bank's accounts, transactions performed with the National Bank deposits and other foreign exchange transactions, and depend on the tariffs charged by foreign banks and the types of services used. The main part of the fee expenses is related to the expenses paid by the National Bank for the RAMP program for managing foreign assets, expenses paid to the foreign banks and custodians for securities maintenance and expenses for executed transactions with futures.

**7. Net unrealized price and exchange rate differences**

	<b>2018</b>	<b>2017</b>
Unrealized positive exchange rate differences	2,574,269	3,423,538
Unrealized negative exchange rate differences	(2,541,353)	(9,794,831)
Unrealized positive price and exchange rate differences from gold	9,821,232	11,565,794
Unrealized negative price and exchange rate differences from gold	(9,292,800)	(11,896,092)
<b>Total</b>	<b>561,348</b>	<b>(6,701,591)</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***8. Net result from securities at fair value through profit and loss and derivatives**

	<b>2018</b>	<b>2017</b>
Realized gains from securities at fair value through profit and loss	90,269	63,394
Realized losses from securities at fair value through profit and loss	(100,174)	(234,578)
Unrealized positive price differences from securities at fair value through profit and loss	82,297	7,047
Unrealized negative price differences from securities at fair value through profit and loss	(1,213,630)	(951,376)
Interest income from securities at fair value through profit and loss	1,327,187	1,241,821
<b>Total net result from securities at fair value through profit and loss</b>	<b>185,949</b>	<b>126,308</b>
Realized gains from futures	127,622	65,191
Realized losses from futures	(460,446)	(4,926)
Unrealized positive price differences from futures	5,335	5,204
Unrealized negative price differences from futures	(31,410)	(7,213)
Realized gains from forwards	10,021	-
Realized losses from forwards	(328,107)	-
<b>Total net result from derivatives</b>	<b>(676,985)</b>	<b>58,256</b>
<b>Total net result from securities at fair value through profit and loss and derivatives</b>	<b>(491,036)</b>	<b>184,564</b>

The net loss from securities at fair value through profit and loss and derivatives for 2018 includes net losses incurred from the RAMP<sup>8</sup> program with the World Bank in the amount of MKD 26,411 thousand (2017: net income of MKD 41,981 thousands).

**9. Net realized price and exchange rate differences**

	<b>2018</b>	<b>2017</b>
Realized positive exchange rate differences from arbitration with foreign banks, net	448,600	277,142
Realized positive exchange rate and price differences on other basis, net	39,939	134,954
<b>Total</b>	<b>488,539</b>	<b>412,096</b>

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***9. Net realized price and exchange rate differences (Continued)**

The net realized positive exchange rate differences from arbitration with foreign banks and exchange rate and price differences on other bases arise from purchase and sale of foreign currency with domestic banks, purchase and sale of gold and foreign currency with foreign banks, as well as from the spread between middle and ask rate when selling foreign currency to the government bodies for the purpose of executing international foreign exchange payments.

**10. Dividend income**

	<b>2018</b>	<b>2017</b>
Dividend income on investments in BIS	7,511	9,761
<b>Total</b>	<b>7,511</b>	<b>9,761</b>

**11. Other income**

	<b>2018</b>	<b>2017</b>
Royalty income from collector coins	3,598	3,411
Revenue from sale of collector coins	1,660	1,631
Other income	19,996	18,919
<b>Total</b>	<b>25,254</b>	<b>23,961</b>

**12. Personnel expenses**

	<b>2018</b>	<b>2017</b>
Wages and personal income tax	305,208	294,943
Pension cost – defined contribution plans	75,434	73,029
Mandatory contributions	37,717	36,515
Other personnel expenses	14,685	16,314
<b>Total</b>	<b>433,044</b>	<b>420,801</b>

In 2018, the remuneration of the key management of the National Bank was MKD 11,992 thousands (2017: MKD 13,506 thousand), included in "Personnel expenses" above, and it relates to short term employee benefits.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***13. Other expenses**

	<b>2018</b>	<b>2017</b>
Costs of production of banknotes and coins	120,907	105,554
Services	66,393	63,411
Material expenses	21,507	25,407
Other administrative expenses	22,644	27,622
Collector coins expenses	4,068	3,415
Other expenses	2,696	1,806
<b>Total</b>	<b>238,215</b>	<b>227,215</b>

The costs of banknote and coin manufacture mainly relate to purchased banknotes and coins, and to the materials purchased for minting coins (coin blanks). Banknotes are printed and coins are minted by domestic or foreign manufacturers, and the coin minting using the purchased coin blanks is made by the National Bank. The National Bank applies a policy of differentiating the costs of manufacture of banknotes and coins depending on the period of their use, within a period of 2 to 4 years.

**14. Impairment**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
(Released) impairment of other receivables	25	(14,230)	-
Charged impairment on foreign securities	17	9,541	-
(Released) impairment on foreign securities	17	(994)	-
Charged/(Released) impairment of operating receivables	30	439	(917)
Charged impairment of receivables from fees and commissions	30	308	-
Charged impairment on term deposits	16	333	-
(Released) impairment on term deposits	16	(1)	-
(Released) impairment of interest income	30	-	(5)
<b>Total (released) impairment of financial assets</b>		<b>(4,604)</b>	<b>(922)</b>
Charged impairment of professional literature	27	22	-
Charged impairment on non-current assets held for sale	26	-	29,052
<b>Total impairment of non-financial assets</b>		<b>22</b>	<b>29,052</b>
<b>Total</b>		<b>(4,582)</b>	<b>28,130</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***15. Foreign currencies**

Foreign currencies include cash and checks in foreign currency, held in the National Bank vault. Foreign currencies are included in cash equivalents for the purposes of the cash flow statement (Note 44).

**16. Foreign currency deposits**

	<b>2018</b>	<b>2017</b>
Foreign currency sight deposits	18,827,436	21,606,440
Foreign assets placed at World Bank – RAMP	16,897	14,210
Foreign currency term deposits placed at World Bank-RAMP	368,949	700,946
<b>Included in the cash and cash equivalents (Note 44)</b>	<b>19,213,282</b>	<b>22,321,596</b>
Foreign currency term deposits over 90 days	4,612,378	-
<b>Total</b>	<b>23,825,660</b>	<b>22,321,596</b>

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

	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>Balance as at 1 January restated due to the initial application on IFRS 9</b>		<b>1</b>	<b>-</b>
Increase of impairment on term deposits in foreign currency	14	333	-
(Released) impairment on term deposits in foreign currency	14	(1)	-
<b>Balance as at 31 December</b>		<b>333</b>	<b>-</b>

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

<b>Interest rate type</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
- Overnight deposits in USD	1.81%	0.92%
- Overnight deposits in USD-RAMP	-	0.98%
- Euro overnight deposits	-0.4041%	-0.4%
- Term deposits in USD	1.58%	1.05%
- Term deposits in EUR	0.07%	-
- Term deposits in EUR-RAMP	-0.47%	-0.42%

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***16. Foreign currency deposits (Continued)****Foreign currency deposits by type of entity**

	<b>2018</b>	<b>2017</b>
Central banks	17,814,136	20,452,076
Foreign commercial banks	6,009,523	1,862,010
International financial institutions	2,001	7,510
<b>Total</b>	<b>23,825,660</b>	<b>22,321,596</b>

**Foreign currency deposits by geographic location**

	<b>2018</b>	<b>2017</b>
Europe	13,005,702	13,918,456
the Americas	5,265,926	7,462,110
Asia	5,554,032	937,222
Australia	-	3,808
<b>Total</b>	<b>23,825,660</b>	<b>22,321,596</b>

**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.

<b>Classification according to IFRS 9<sup>9</sup></b>	<b>2018</b>	<b>Classification according to IAS 39</b>	<b>2017</b>
<b>Securities at fair value through profit and loss</b>	<b>97,695,973</b>	<b>Trading securities</b>	<b>68,644,372</b>
Foreign debt securities	89,213,966	Foreign debt securities	60,462,742
Foreign debt securities - RAMP	8,482,007	Foreign debt securities -RAMP	8,181,630
<b>Securities at amortized cost</b>	<b>39,208,472</b>	<b>Securities held to maturity</b>	<b>37,503,693</b>
Foreign debt securities at amortized cost	39,208,472	Foreign debt securities held to maturity	37,503,693
<b>Securities at fair value through other comprehensive income</b>	<b>40,131</b>	<b>Securities available for sale</b>	<b>39,357</b>
Foreign unquoted equity instruments	40,131	Foreign unquoted equity securities	39,357
<b>Total</b>	<b>136,944,576</b>	<b>Total</b>	<b>106,187,422</b>
Current	104,593,964	Current	78,877,762
Non-current	32,350,612	Non-current	27,309,660

<sup>9</sup> Classification and valuation on 1 January 2018, is shown in note 2.A.a



**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***17. Foreign securities (Continued)**

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. (2017: from 0% to 6% p.a.). Foreign securities at fair value through profit and loss include accrued interest in the amount of MKD 684,389 thousands (2017: MKD 615,292 thousand).

Investments in securities at fair value through profit and loss which are part of the RAMP program bear fixed coupon interest at a rate ranging between 0,125% and 5% p.a. (2017: between 0% and 5% p.a.). Foreign securities valued at fair value through profit and loss as part of the RAMP program include accrued interest in the amount of MKD 41,061 thousands (2017: MKD 28,194 thousands).

Securities at amortized cost bear fixed income with interest at a rate ranging between 0.2% and 5.5% p.a. (2017: from 0.2% to 4.85% p.a.). Foreign securities at amortized cost include accrued interest in the amount of MKD 294,936 thousand (2017: MKD 228,659 thousands).

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

	Note	2018	2017
<b>Balance as at 1 January restated due to the initial application on IFRS 9</b>		<b>2,574</b>	-
Increase of impairment on securities at amortized cost	14	9,541	-
(Released) impairment on securities at amortized cost	14	(994)	-
<b>Balance as at 31 December</b>		<b>11,121</b>	-

Equities are composed of 430 ordinary Bank for International Settlements (hereinafter: BIS) shares with a nominal value of 5,000 SDR per share (paid up at 25% of their nominal value). BIS shares represent unquoted equity instruments whose fair value cannot be reliably determined and therefore are carried at cost. Therefore, it is considered that their cost reflects their fair value.

**18. Derivatives**

The National Bank has entered into derivatives - interest rate futures and bond futures within a portfolio managed by the World Bank, as well as in its own portfolio.

During 2018, within its own portfolio, the National Bank of the Republic of North Macedonia started entering into forwards. Gains and losses from changes in fair value of futures and forwards have been recognized in the income statement (Note 8).

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***19. Gold**

	<b>2018</b>	<b>2017</b>
Sight gold deposits	1,069,912	1,358,516
Term gold deposits	14,149,280	13,338,028
Gold in the National Bank vault	27,765	26,822
<b>Total</b>	<b>15,246,957</b>	<b>14,723,366</b>
Current	15,246,957	14,723,366

As of 31 December 2018, the National Bank total gold reserves were 221,547.9877 ounces (2017: 221,457.1047 ounces) at a fair value of US Dollar 1,281.65 (MKD 68,810) per ounce (2017: US Dollar 1,296.50 or MKD 66,474 per ounce).

Interest rates on term gold deposits in 2018 ranged between 0.01% and 0.30% p.a. for gold deposits based on the price of gold in US Dollar (2017: interest rate between 0.01% and 0.4 % p.a.). As of 31 December 2018, term gold deposits include accrued interest in the amount of MKD 2,213 thousands (2017: MKD 2,136 thousands).

**20. Special Drawing Rights**

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. This current account bears interest in the amount of the so-called IMF basic rate. In 2018, the basic rate ranged from 0.764% to 1.121% p.a. (2017: from 0.244% to 0.747% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 44).

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

	<b>2018</b>	<b>2017</b>
Receivable related to general and special net cumulative allocation	4,273,512	4,191,157
Receivable related to SDR allocation	625,569	613,514
<b>Total</b>	<b>4,899,081</b>	<b>4,804,671</b>
Current	4,899,081	4,804,671

Payables related to the general and special net cumulative allocation include funds that according to the Law on Regulating the Republic of Macedonia's Obligations to the IMF based on the Use of Funds from the General and Special Net Cumulative SDR Allocation, have been approved by a resolution of the Board of Governors of the IMF (Note 39a) and were given for use to the Republic of North Macedonia.

The payable based on SDR allocation refers to the SDR allocation in the IMF resulting from the correspondent requirement for the Macedonian part of the liability to the IMF for SDR in accordance with the Law on Legal Inheritance of the Republic of Macedonia of the Membership in the IMF (Note 39a).

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***22. Government securities**

	<b>2018</b>	<b>2017</b>
<b>Securities at amortized cost</b>		
Bond for selective credits	1,000,024	969,662
<b>Total</b>	<b>1,000,024</b>	<b>969,662</b>
Non-current	1,000,024	969,662

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

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

**23. IMF Membership**

According to the IMF's Articles of Agreement, ratified by the Assembly and the Law on the Legal Inheritance of the Republic of Macedonia of the Membership in the International Monetary Fund, the National Bank acts as a fiscal agent of the Republic of North Macedonia and simultaneously behaves as a depositary of the IMF in the Republic of North Macedonia. As such, the National Bank also keeps records of the quota of the Republic of North Macedonia for membership in the IMF on account no. 1 and account no. 2.

The quota of the Republic of North Macedonia for membership in the IMF stands at MKD 10,253,443 thousand at the end of 2018, account no. 1 amounts to MKD 25,698 thousand and account no. 2 amounts to MKD 149 thousand (2017: MKD 10,863,264 thousands, MKD 27,226 thousands, and MKD 157 thousands respectively for the three positions). The differences are due to the evaluation of these positions at the SDR exchange rate as of 30 April 2018 and 2017, according to the IMF financial year (Note 39b).

**24. Loans to banks**

	<b>2018</b>	<b>2017</b>
Long-term loans from the conversion of the selective credits from 1996	15,912	15,912
<b>Total</b>	<b>15,912</b>	<b>15,912</b>
Non-current	15,912	15,912

The receivables based on long term loans originate from the restructuring of the so-called selective credits of the National Bank used for refinancing of mainly agricultural loans of the banks in the former SFRY<sup>10</sup>. The loans converted in 1996 mature on 31 March 2020 and bear annual interest of 1.5%, payable semiannually.

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***25. Other receivables**

	<b>2018</b>	<b>2017</b>
Receivables from bank under bankruptcy	740,990	755,220
Due auction deposits	8,268	8,268
<b>Total</b>	<b>749,258</b>	<b>763,488</b>
Impairment	(749,258)	(763,488)
<b>Total</b>	<b>-</b>	<b>-</b>

In January 2004, the National Bank paid out MKD 1,018,258 thousand to foreign banks on the basis of guarantees given for borrowings of one Macedonian bank from foreign banks, in accordance with the Decision on the criteria and the conditions for the use of a portion of the foreign reserves based on guarantees for borrowings of Macedonian banks from foreign banks, which ceased being valid in March 2003. The National Bank reflected a receivable from the domestic bank. Bankruptcy proceeding was initiated against the bank in March 2004. The National Bank had receivables from guarantees granted by the bank under bankruptcy worth MKD 1,034,569 thousand. The National Bank made full impairment of the receivables from the bank under bankruptcy. During the period from 2010 to 2015, the National Bank collected part of the receivable in the amount of MKD 217,004 thousand, from the bankruptcy estate of the domestic bank in bankruptcy. Also, the National Bank in 2016 obtained assets (part of buildings and part of equipment) in the amount of MKD 62,345 thousand. In July 2018, the National Bank collected a part of the receivable in the amount of MKD 14,230 thousand, based on a decision on the advance allocation from the bankruptcy estate of the domestic bank in bankruptcy (note 14).

Overdue receivables from banks also relate to auction deposits of one bank not repaid on time. In 1999, a bankruptcy proceeding was initiated against this bank which is still pending. The National Bank fully impaired the receivables from the bank under bankruptcy.

In February 2013, the National Bank collected part of the receivable in the amount of MKD 1,000 thousand from the bank in bankruptcy.

The movements in impairment of other receivables are as follows:

	<b>2018</b>	<b>2017</b>
<b>Balance as at 1 January</b>	<b>763,488</b>	<b>763,488</b>
(Release) of impairment of other receivables (Note 14)	(14,230)	-
<b>Balance as at 31 December</b>	<b>749,258</b>	<b>763,488</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***26. Non - current assets held for sale or disposal groups**

	<b>2018</b>	<b>2017</b>
<b>Balance as at 1 January</b>	-	<b>108,047</b>
Impairment loss (Note 14)	-	(29,052)
Disposal	-	(78,995)
<b>Balance as at 31 December</b>	-	-

Non-current assets held for sale relate to real estate – a building owned by the National Bank, which according to the decision for its sale adopted by the National Bank Council was reclassified from the category of “property and equipment” to the category of “non-current assets held for sale and disposal group”, in January 2014.

The fair value of non-current asset held for sale was determined on the basis of estimate of the market value made by external certified appraiser. Fair value was estimated applying the Methodology for estimating market value of properties. The difference between the estimated fair value and the carrying value of the asset as non-current assets held for sale, in the amount of MKD 29,052 thousand, was recorded as impairment loss during 2017 (Note 14).

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**
**Notes to the Financial Statements for the year ended 31 December 2018**
*(Amounts expressed in thousands of MKD unless otherwise stated)*
**27. Property and equipment**

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**
**Notes to the Financial Statements for the year ended 31 December 2018**
*(Amounts expressed in thousands of MKD unless otherwise stated)*
**27. Property and equipment (Continued)**

	Land and buildings	Furniture, equipment and vehicles	Works of art	Profe ssion al literat ure	Assets under construc tion	Total assets for business purposes	Property and equipment for entertainm ent purposes	Total
<b>As at 1 January 2018</b>								
Cost	807,296	538,099	64,219	3,604	239,807	1,653,025	34,470	1,687,495
Accumulated depreciation	(395,112)	(459,147)	-	-	-	(854,259)	(20,411)	(874,670)
<b>As at 1 January 2018, net carrying amount</b>	<b>412,184</b>	<b>78,952</b>	<b>64,219</b>	<b>3,604</b>	<b>239,807</b>	<b>798,766</b>	<b>14,059</b>	<b>812,825</b>
Additions								
- Cost	1,832	26,719	33	618	128,632	157,834	6	157,840
Disposals and write-offs:								
- Cost	-	(914)	-	-	-	(914)	-	(914)
- Accumulated depreciation	-	914	-	-	-	914	-	914
Write-offs of assets under construction	-	-	-	-	(22)	(22)	-	(22)
Transfers	-	20	-	32	(32)	20	(20)	-
- Cost								
- Accumulated depreciation	-	(20)	-	-	-	(20)	20	-
Depreciation for the year	(26,323)	(29,763)	-	-	-	(56,086)	(638)	(56,724)
<b>As at 31 December 2018</b>	<b>387,693</b>	<b>75,908</b>	<b>64,252</b>	<b>4,254</b>	<b>368,385</b>	<b>900,492</b>	<b>13,427</b>	<b>913,919</b>
<b>As at 31 December 2018</b>								
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)
<b>Net carrying amount</b>	<b>387,693</b>	<b>75,908</b>	<b>64,252</b>	<b>4,254</b>	<b>368,385</b>	<b>900,492</b>	<b>13,427</b>	<b>913,919</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***27. Property and equipment (Continued)**

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 2018 the National Bank made investments in assets under construction related to the new business premises in the amount of MKD 128,549 thousand (2017: MKD 114,977 thousand) (Note 45b).

As at 31 of December 2018 and 2017, the National Bank has no pledged property and equipment.

**28. Intangible assets**

	2018	2017
<b>Balance as at 1 January</b>		
Cost	231,958	208,537
Assets under construction	5,488	5,488
Accumulated amortization	(199,726)	(187,794)
<b>Net carrying amount</b>	<b>37,720</b>	<b>26,231</b>
<b>Additions</b>		
-Cost	5,683	23,421
Amortization charge	(13,545)	(11,932)
Assets under construction	63	-
<b>Balance as at 31 December</b>	<b>29,921</b>	<b>37,720</b>
<b>Balance as at 31 December</b>		
Cost	237,641	231,958
Assets under construction	5,551	5,488
Accumulated amortization	(213,271)	(199,726)
<b>Net carrying amount</b>	<b>29,921</b>	<b>37,720</b>



**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***29. Coins from precious metals**

Coins from precious metals include jubilee coins and collector coins.

The jubilee coins are gold and silver coins which, as defined by the decision of the Government, were manufactured for the purposes of celebrating jubilees relevant to the country.

As at 31 December 2018, the National Bank held a total of 173 gold coins and 26 silver coins (2017: 186 gold coins and 27 silver coins).

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

The National Bank purchases a certain quantity of the issue of collector coins for sale and distribution in the territory of the Republic of North Macedonia. In 2016, the National Bank started selling collector coins through commission. As at 31 December 2018, the National Bank held a stock of 501 pieces of collector coins (2017: 579 pieces).

**30. Operating receivables**

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

	<b>2018</b>	<b>2017</b>
Fees	41,115	33,222
Receivables for maintenance of premises	2,114	2,384
Other receivables	405,274	404,520
Impairment of other receivables	(405,274)	(404,520)
<b>Total</b>	<b>43,229</b>	<b>35,606</b>

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***30. Operating receivables (Continued)**

The movements in impairment of other receivables are as follows:

	2018	2017
<b>Balance as at 1 January</b>	<b>404,520</b>	<b>405,436</b>
Increase/ (Release) of impairment of operating receivables (Note 14)	439	(917)
Increase of impairment of receivables from fees and commissions (Note 14)	308	-
(Release) of impairment of interest income (Note 14)	-	(5)
Increase of doubtful receivables	7	6
<b>Balance as at 31 December</b>	<b>405,274</b>	<b>404,520</b>

**31. Other assets**

	2018	2017
Office and other materials	10,041	27,251
Prepaid expenses for printing banknotes	181,794	155,224
Other accrued expenses	4,995	2,053
Other assets	119,565	160,252
Foreclosed assets for uncollected receivables	44,897	44,897
Impairment on foreclosed assets for uncollected receivables	(44,897)	(44,897)
<b>Total</b>	<b>316,395</b>	<b>344,780</b>
Current	306,354	317,529
Non-current	10,041	27,251

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***32. Currency in circulation**

Currency in circulation comprises the following:

2018				2017	
MKD	Nominal value	Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Currency in circulation (legal tender)					
Banknotes	10	-	-	19,688,586	196,886
Banknotes	50	-	-	2,612,075	130,605
Banknotes	100	14,934,540	1,493,454	14,881,629	1,488,163
Banknotes	200	1,611,851	322,370	1,238,332	247,666
Banknotes	500	8,331,494	4,165,747	9,123,808	4,561,904
Banknotes	1000	22,394,437	22,394,437	23,768,823	23,768,823
Banknotes	2000	4,806,787	9,613,574	2,243,111	4,486,222
Total banknotes			37,989,582	34,880,269	
Polymer banknotes	10	14,418,675	144,187	-	-
Polymer banknotes	50	3,896,550	194,828	-	-
Total polymer banknotes			339,015		
Coins	1	102,212,454	102,212	97,406,472	97,407
Coins	2	64,725,916	129,452	62,112,598	124,225
Coins	5	35,679,449	178,397	34,535,477	172,677
Coins	10	40,292,314	402,923	44,192,942	441,929
Coins	50	7,638,155	381,908	9,383,884	469,194
Total coins			1,194,892	1,305,432	
Total currency in circulation (legal tender)			39,523,489	36,185,701	
Currency in circulation - Collector coins					
Coins	10	82,260	823	69,758	698
Coins	100	88,701	8,870	62,275	6,227
Coins	1000	557	557	547	547
Coins	2000	25	50	25	50
Total currency in circulation – Collector coins			10,300	7,522	
Currency in circulation – Not a legal tender					
Coins	0,5	4,311,792	2,156	3,950,442	1,975
Banknotes	10	17,144,506	171,445	-	-
Banknotes	50	2,298,727	114,936	-	-
Banknotes	5000	2,567	12,835	4,133	20,665
Total currency in circulation – Not a legal tender			301,372	22,640	
Total currency in circulation			39,835,161	36,215,863	

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

In December 2016, the National Bank made a decision according to which the banknotes in denomination of 5000 Denars are no longer considered a legal tender.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***33. Bank deposits**

	2018	2017
Bank deposits in MKD	28,063,046	20,054,193
Bank deposit facilities in MKD with the National Bank	14,176,020	10,872,687
Bank deposit in foreign currency RTGS - EUR	961,473	1,914,071
<b>Total</b>	<b>43,200,539</b>	<b>32,840,951</b>
Current	43,200,539	32,840,951

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

Since April 2012, domestic banks and foreign banks' branches have the right to place deposit with the National Bank. The maturities of the deposits are: one working day (overnight deposits) and seven days, without possibility for early withdrawal, in part or in total amount.

The interest rate on overnight deposit was 0.25% p.a. from January to the first half of March 2018, while from the second half of March to the end of 2018, the interest rate decreased to 0.15% p.a (2017: 0.25% p.a). The interest rate on 7-day deposit from January to the first half of March 2018 was 0.50% p.a., while from the second half of March to the end of 2018, the interest rate decreased to 0.3% p.a (2017: 0.5% p.a). Seven-day deposits include accrued interest in the amount of MKD 20 thousand (2017: MKD 687 thousands).

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

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

	2018	2017
Banks' foreign exchange reserve requirement	15,625,161	14,073,254
Savings houses' MKD reserve requirement	23,889	21,245
<b>Total</b>	<b>15,649,050</b>	<b>14,094,499</b>
Current	15,649,050	14,094,499

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***34. Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD (Continued)**

Since November 2018, in accordance with the Decision amending the Decision on reserve requirement<sup>11</sup>, the National Bank started to determine reserve requirement remuneration rate in euros, equal to the ECB's overnight deposit interest rate which was valid on the last day of the fulfillment period. The interest rate in the period November – December 2018 was -0.40%.

For the amount of allocated funds on the foreign currency account in euros in RTGS, which is higher than 5% of the calculated reserve requirement in euros, the interest rate in the period November – December 2018 was -0.55%.

**35. National Bank bills issued**

In 2018, the National Bank used a tender with limited volume and fixed interest rate. The National Bank bill interest rate in 2018 marked a downward trend, as follows:

- 3.25% from January to the first half of March 2018;
- 3% from the second half of March to the first half of August 2018;
- 2.75% from the second half of August to the first half of December 2018;
- 2.5% since the second half of December 2018, p.a. (2017: the National Bank bills auctions applied a tender with a limited volume and fixed interest rate of 3.5% in January 2017, while in the period February-December 2017, it was 3.25% p.a.).

As of 31 December 2018, the accrued interest on National Bank bills amounted to MKD 32,892 thousand (2017: MKD 40,498 thousand).

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

	<b>2018</b>	<b>2017</b>
<b>Balance as at 1 January</b>	<b>24,977,473</b>	<b>22,973,701</b>
National Bank bills, inflows	299,803,000	322,130,000
National Bank bills, outflows	(299,803,000)	(320,130,000)
Discount (outflows/inflows)	(5,206)	3,772
<b>Balance as at 31 December</b>	<b>24,972,267</b>	<b>24,977,473</b>

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<sup>11</sup> D.No.02-15/XVI-2/2018 of 25 October 2018, Official Gazette of the Republic of Macedonia No.198 of 31 October 2018

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***36. Government MKD deposits**

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

	<b>2018</b>	<b>2017</b>
Single Treasury account	21,120,957	15,510,642
Other MKD deposits	1,162,882	841,425
<b>Total</b>	<b>22,283,839</b>	<b>16,352,067</b>
Current	22,283,839	16,352,067

Since January 2017, 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 Bank<sup>12</sup>. The interest rate on government MKD deposits equals the interest rate on overnight deposit facilities of the National Bank.

In 2018, during the period January - March, the interest paid by the National Bank on these deposits was 0.25 % p.a., while in the period from March – December 2018, the interest rate was 0.15% p.a. (2017: 0.25% p.a.). Government deposits include accrued interest in the amount of MKD 775 thousands (2017: MKD 1,292 thousand).

**37. 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 2018, these deposits amounted to MKD 19,897,777 thousand (2017: MKD 7,982,657 thousand).

Since January 2017, 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. In 2018, the interest rate was negative, and according with the Decision no interest on these deposits is accrued.

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<sup>12</sup> D. No. 02-15/XIV-3/2016 of 15 December 2016, Official Gazette of the Republic of Macedonia No. 218 of 20 December 2016

**38. Restricted deposits**

Restricted deposits primarily include foreign assets of depositors (Government) pending the completion of wire transfers abroad, and funds of depositors (government) which represent 100% cover of a letter of credit issued by the National Bank for their account. The National Bank does not pay interest on these deposits. As of 31 December 2018, the balance of the restricted deposits was MKD 258,021 thousands (2017: MKD 1,875,226 thousands).

**39. Payables to IMF**

Payables to IMF comprise liabilities on the basis of net cumulative allocation, and liabilities on the basis of IMF membership and deposits.

a) Payables based on Special Drawing Rights Allocation – on behalf and for the account of Government

By a decision of the IMF's Executive Board dated 14 December 1992, our country took over 5.4% of the liability on the basis of the net SDR allocation from former Yugoslavia of SDR 8,378,694, in accordance with the Law on the Legal Inheritance of the Republic of Macedonia in the International Monetary Fund.

By a decision of the IMF's Executive Board dated 7 August 2009, our country was granted General SDR Allocation in the amount of SDR 51,076,245. By entering into force of the Fourth Amendment of IMF's Articles of Agreement on 10 August 2009, and based on a decision of the IMF's Executive Board adopted in 1997, the country was granted Special SDR Allocation in the amount of SDR 6,161,937.

Total liability of the Republic of North Macedonia for the SDR allocation at the end of 2018 amounted to SDR 65,616,876 (2017: SDR 65,616,876). According to the IMF's Articles of Agreement, the liability for the SDR allocation falls due only in the case and in the amount of the cancelled SDR allocation, which requires a decision of the Council of IMF Governors, with 85% majority of votes, or in the case of canceling the participation in the IMF's SDR Department.

The National Bank pays interest on the existing share of the liability on the basis of the SDR allocation (SDR 65,616,876), at the IMF's basic interest rate. The National Bank has been refunded the interest paid for the liability based on the SDR Allocation which it took over from former Yugoslavia, and interest on general and special allocation paid from the Budget of the Republic of North Macedonia.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***39. Payables to IMF (Continued)**

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

	<b>2018</b>	<b>2017</b>
Liabilities based on issued promissory note for membership in the IMF	10,253,443	10,863,264
Liabilities based on account 1	25,698	27,226
Liabilities based on account 2	149	157
<b>Total</b>	<b>10,279,290</b>	<b>10,890,647</b>
Current	10,279,290	10,890,647

Resolution 66-2 Fourteenth General Review of Quotas and Reform of the Executive Board, adopted on 15 December 2010 by the Board of Governors of the IMF entered into force in February 2016, which proposed increasing the quotas for each IMF member country. According to the resolution, the quota of our country for IMF membership in 2016 increased from 68.9 million Special Drawing Rights (SDR) to 140.3 million Special Drawing Rights (SDR). The National Bank, as a fiscal agent of the Republic of North Macedonia, has issued promissory notes for membership in the IMF.

**40. Other deposits**

	<b>2018</b>	<b>2017</b>
Liabilities based on MKD deposits to other domestic entities	2,065,224	600,148
Liabilities based on MKD deposits to international financial institutions	8,182	4,241
<b>Total</b>	<b>2,073,406</b>	<b>604,389</b>
Current	2,073,406	604,389

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

The accounts of the international financial institutions are deposited with the National Bank. The National Bank pays no interest on these deposits.



**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***41. Other payables**

Payables are analyzed as follows:

	<b>2018</b>	<b>2017</b>
Liabilities based on BNT bankruptcy	144,912	144,913
Payables on allocation of net income	25,022	12,921
Payables on annuities received from sale of socially-owned flats	-	2,511
Tax liabilities	3,681	8,899
Payables for long-term employee benefits	35,849	31,413
<b>Total</b>	<b>209,464</b>	<b>200,657</b>

Payables on the bankruptcy of the Bank for Foreign Trade (BNT) pertain to inherited payables of the National Bank on households' deposits present at the moment when the bank was declared bankrupt in 1995, in the amount of MKD 292,442 thousand. For the purpose of settling liabilities, the National Bank received certain property from the bankruptcy estate of the BNT that was immediately transferred to the Government 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 2.64% on bonds issued by our country during 2018 (2017: 3.21%).

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).

Payables arising from annuities received from the sale of socially-owned flats represent liabilities to the Budget of the Republic of North Macedonia for outstanding MKD equivalent of foreign currency inflows from installments received from sale of socially-owned flats to their residents. The annuities received from residents are collected by the commercial banks and transferred to a special foreign currency account of the Budget of the Republic of North Macedonia held at the National Bank. The foreign currency collected this way is accumulated on a special account with the National Bank, which transfers their counter value in MKD to the Budget of the Republic of North Macedonia on a weekly basis.

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***42. Other liabilities**

	<b>2018</b>	<b>2017</b>
Deposited funds from confiscated foreign currencies and deposited guarantees	329,124	360,173
Jubilee coins counterpart	4,191	4,314
Liabilities to suppliers and other liabilities	23,880	23,346
Deferred income	11,559	8,758
<b>Total</b>	<b>368,754</b>	<b>396,591</b>

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.

**43. Capital and reserves***Capital*

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2018, it amounted to MKD 1,289,789 thousand (2017: MKD 1,289,789 thousand).

*General and special reserves*

As stipulated by the Law on the National Bank and following the allocation of unrealized gains to the other reserves<sup>13</sup>, 70% of the distributable earnings are transferred to the general reserves until the level of the capital of the National Bank is reached. After the capital is reached, 15% of the remaining income is transferred to the general reserves, while the remaining share is transferred to the Budget of the Republic of North Macedonia. In case of a special reserve account<sup>14</sup>, distributable earnings shall be distributed so that up to 70% shall be transferred to the special reserves account until reaching the amount set by the National Bank Council to cover costs for previously planned purposes, and 70% of the remainder shall be allocated to general reserves until reaching the level of core capital or 15% after reaching the level of core capital. The general reserves are utilized to cover the general risks related to the National Bank operations. In 2015, the National Bank opened a special reserve account for building of new business premises.

	<b>2018</b>	<b>2017</b>
General reserves	1,316,002	1,311,586
Special reserves	550,114	481,426

<sup>13</sup> Defined as revaluation reserve accounts in the Law on the National Bank of the Republic of Macedonia

<sup>14</sup> Defined as special reserve account in the Law on the National Bank of the Republic of Macedonia

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***43. Capital and reserves (Continued)***Other reserves*

	<b>2018</b>	<b>2017</b>
Other reserves from unrealized price and exchange rate differences		
- Other reserves from foreign exchange rate differences	1,154,465	1,121,549
- Other reserves from price and exchange rate differences of gold	5,540,491	6,163,295
- Other reserves from price differences of securities at fair value through profit and loss and derivatives	88,687	12,251
<b>Total</b>	<b>6,783,643</b>	<b>7,297,095</b>

Other reserves represent accumulated net unrealized positive foreign exchange gains and price differences from periodic exchange rate and pricing revaluations of foreign exchange assets and liabilities, which serve as a reserve against any future adverse movements in exchange rates and prices.

Other reserves from foreign exchange rate differences from foreign exchange assets and liabilities for 2018 are increased by MKD 32,916 thousand (2017: decrease of MKD 6,371,293 thousand on the basis of net unrealized negative foreign exchange rate differences).

Other reserves from price and exchange rate differences of gold for 2018 decreased by MKD 662,804 thousands from which:

- MKD 528,432 thousand as a result of the allocation of the net unrealized positive price and foreign exchange rate differences of gold (2017: decrease of MKD 330,298 thousand as a result of the allocation of the net unrealized negative price and foreign exchange rate differences of gold) and
- MKD 1,151,236 thousands as a result of realized exchange rate and price differences from transactions in gold during 2018, which were added to the distributable earnings in 2018 (2017: MKD 445,662 thousand).

Other reserves from price differences of securities and derivatives at fair value through profit and loss for 2018 increased on a net basis by MKD 76,436 thousands 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 82,296 thousand on the "security by security" principle (2017: MKD 7,047 thousand);
- Increase of MKD 5,335 thousand as a result of allocation of net unrealized positive price differences of derivatives - futures (2017: MKD 5,204 thousand).

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2018***(Amounts expressed in thousands of MKD unless otherwise stated)***43. Capital and reserves (Continued)***Other reserves (Continued)*

- Decrease of MKD 5,659 thousand as a result of realized price differences of securities which were added to the distributable earnings for 2018 (2017: MKD 111,733 thousand).
- Decrease of MKD 5,204 thousand as a result of realized price differences of derivatives - futures which were added to the distributable earnings for 2018 (2017: MKD 2,137 thousand).
- Decrease of MKD 332 thousand as a result of covering the net unrealized negative price changes of securities at fair value through profit and loss (2017: MKD 3.021 thousand).

Other reserves from art works and library fund as of 31 of December 2018 amounted to MKD 3,938 thousand (2017: MKD 3,683 thousand). The increase in other reserves of MKD 255 thousand is a result of the books donated to the National Bank's library fund and museum items.

**44. Cash and cash equivalents**

	<b>2018</b>	<b>2017</b>
Foreign currencies (Note 15)	132,874	216,605
Foreign currency deposits (Note 16)	19,213,282	22,321,596
Special Drawing Rights (Note 20)	217,871	253,633
<b>Total</b>	<b>19,564,027</b>	<b>22,791,834</b>

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

The National Bank is a defendant in several legal proceedings arising from its operations. On 31 December 2018, the litigations were valued at MKD 123,666 thousand (2017: MKD 123,666 thousand). The National Bank contests these receivables and based on legal advice considers that no significant material liabilities will be incurred.

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

**NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**

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**Notes to the Financial Statements for the year ended 31 December 2018**

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

**45. Contingencies and commitments (Continued)****b) Commitments**

In October 2016, the National Bank concluded a contract for construction works on the new office building. On 31 December 2018, the National bank has commitments valued at MKD 1,134,715 thousand (2017: MKD 1,245,473 thousand), which are expected to be settled in the next 1 to 2 years.

**46. 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, 36, 37 and 41.

**47. 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.