

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 2023**

Content

	Page
Independent Auditor's Report	1-2
Income Statement	4
Statement of Comprehensive Income	5
Statement of Financial Position	6-7
Statement of Changes in Equity	8-9
Statement of Cash Flows	10
Notes to the Financial statements	11-80

Independent Auditor's Report

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

Grant Thornton DOO
Sv. Kiril i Metodij 52b-1/20
1000 Skopje
North Macedonia
T +389 (0)2 3214 700
F +389 (0)2 3214 710
E Contact@mk.gt.com
VAT No. 4030003475973

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 31 December 2023, 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 material 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 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with the 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) together with the 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

The strategic management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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, the 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.

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 skepticism 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.


Suzana Stavrikj
Director
Grant Thornton DOO, Skopje
Skopje, 29 February 2024

Suzana Stavrikj
Certified Auditor

GENERAL INFORMATION

Members of the National Bank of the Republic of North Macedonia Council for the year 2023

Anita Angelovska Bezhoska, Governor
Fadil Bajrami, Vice Governor
Emilija Nacevska, Vice Governor
Ana Mitreska, Vice Governor
Sinisha Naumoski, non-executive member
Gadaf Redjepi, non-executive member
Borche Trenovski, non-executive member
Nikola Popovski, non-executive member
Marjan Petreski, non-executive member

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 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***INCOME STATEMENT**

	Note	2023	2022
Interest income		2,984,237	497,572
Interest expense		(3,006,119)	(538,498)
Effects of negative interest rates		6,526	19,071
Net interest expense	5	(15,356)	(21,855)
Fee income		480,188	344,706
Fee expense		(18,517)	(21,820)
Net fee income	6	461,671	322,886
Net unrealized price and exchange rate differences	7	2,087,747	1,011,378
Net income/expense from securities at fair value through profit and loss and derivatives	8	3,066,767	(3,247,087)
Net income from securities at fair value through other comprehensive income	9	46,873	-
Net realized price and exchange rate differences	10	198,142	439,437
Dividend income	11	9,223	9,230
Other income	12	44,385	334,760
Personnel expenses	13	(571,035)	(491,190)
Depreciation and amortization charge	26,27	(78,083)	(68,239)
Other expenses	14	(248,179)	(199,800)
Provisions and Impairment, net	15	(9,476)	(156,394)
Gain/Loss for the year, net		4,992,679	(2,066,874)

The notes on pages 11 to 80 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

	Note	2023	2022
Gain/Loss for the year from the Income statement, net		4,992,679	(2,066,874)
Other comprehensive income			
<i>Debt instruments at fair value through other comprehensive income</i>		<i>222,728</i>	<i>-</i>
<i>Net changes in fair value of debt securities measured at fair value through other comprehensive income</i>	43	221,596	-
<i>Changes in provisions for expected credit loss on debt securities measured at fair value through other comprehensive income</i>	15	1,132	-
<i>Equity instruments at fair value through other comprehensive income</i>		<i>179</i>	<i>502</i>
<i>Net changes in fair value of equity securities measured at fair value through other comprehensive income</i>	43	179	502
<i>Gains on received books donations - library fund</i>		<i>42</i>	<i>11</i>
Total other comprehensive income for the year		222,949	513
Total comprehensive gain/loss for the year		5,215,628	(2,066,361)

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	As at 31 December	
		2023	2022
Foreign currencies	16	821,607	2,964,247
Foreign currency deposits	17	107,859,919	53,654,174
Foreign securities	18	145,266,161	157,847,953
Gold	19	25,436,908	23,155,343
Special Drawing Rights	20	13,249	24,679
Receivables based on foreign repo transactions	21	-	8,902,551
Receivables from Government related to IMF	22	29,150,319	32,643,436
IMF Membership	23	10,528,522	11,070,941
Loans to banks	24	-	-
Other receivables	25	-	-
Receivables from banks		-	-
Property and equipment	26	1,537,211	1,501,281
Intangible assets	27	46,721	28,274
Coins from precious metals	28	6,082	5,815
Operating receivables	29	152,910	111,103
Other assets	30	115,449	221,203
Total assets		320,935,058	292,131,000

The notes on pages 11 to 80 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION (Continued)**

LIABILITIES AND EQUITY	Note	As at 31 December	
		2023	2022
Currency in circulation	31	57,208,828	53,852,538
Banks and saving houses deposits	32	93,207,011	74,295,265
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	33	35,241,997	27,148,967
National Bank bills issued	34	9,946,097	9,450,579
Liabilities based on foreign repo transactions	35	22,484,910	27,355,608
Government MKD deposits	36	25,796,921	23,983,580
Government foreign currency deposits	37	15,518,617	16,360,703
Government deposits		41,315,538	40,344,283
Restricted deposits	38	208,273	142,111
Payables based on Special Drawing Rights Allocation - on behalf of and for the account of the Government	39a	14,912,427	15,339,855
Borrowings from IMF - on behalf of and for the account of the Government	39b	14,237,892	17,303,581
Payables based on membership and deposits	39c	10,528,522	11,070,941
Payables to IMF	39	39,678,841	43,714,377
Other deposits	40	3,271,500	2,762,513
Provisions	41	373	344
Other liabilities	42	765,425	563,999
Other liabilities		765,798	564,343
Total liabilities		303,328,793	279,630,584
Capital		1,289,789	1,289,789
General reserves		688,977	432,826
Special reserves		1,697,826	843,987
Other reserves		13,929,673	9,933,814
Total capital and reserves	43	17,606,265	12,500,416
Total liabilities and equity		320,935,058	292,131,000

The notes on pages 11 to 80 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Financial Statements for the year ended 31 December 2023

(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY	Note	Capital	General reserves	Special reserves*	Other reserves			Accumulated gain/loss	Total capital and reserves
					Other Reserves**	Other Reserves	Art works and library fund		
As at 1 January 2022		1,289,789	1,334,893	843,987	11,094,034	-	4,074	-	14,566,777
Loss for the year		-	-	-	-	-	-	(2,066,874)	(2,066,874)
Net changes in fair value of equity securities at fair value through other comprehensive income	43	-	-	-	-	502	-	-	502
Gains on received books donations - library fund	43	-	-	-	-	-	11	-	11
Total comprehensive loss for 2022		-	-	-	-	502	11	(2,066,874)	(2,066,361)
Net unrealized positive price and exchange rate differences of gold allocated in other reserves	43	-	-	-	1,061,491	-	-	(1,061,491)	-
Net unrealized negative foreign exchange rate differences covered by other reserves	43	-	-	-	(50,113)	-	-	50,113	-
Net unrealized positive price differences of securities at fair value through profit and loss allocated in other reserves	43	-	-	-	32,296	-	-	(32,296)	-
Net unrealized negative price differences of securities at fair value through profit and loss covered by other reserves	43	-	-	-	(11,442)	-	-	11,442	-
Realized price and exchange rate differences of gold	43	-	-	-	(2,191,440)	-	-	2,191,440	-
Realized price differences of securities at fair value through profit and loss	43	-	-	-	(5,599)	-	-	5,599	-
Covering of net negative distributable earnings	43	-	(902,067)	-	-	-	-	902,067	-
As at 31 December 2022		1,289,789	432,826	843,987	9,929,227	502	4,085	-	12,500,416

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

**Defined as revaluation reserve accounts according to the Law on the National Bank of the Republic of North Macedonia (revaluation reserve for financial instruments at fair value through profit and loss).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Financial Statements for the year ended 31 December 2023
(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY	Note	Other reserves							Total capital and reserves
		Capital	General reserves	Special reserves*	Other Reserves**	Other Reserves	Art works and library fund	Accumulated gain/loss	
As at 1 January 2023		1,289,789	432,826	843,987	9,929,227	502	4,085	-	12,500,416
Gain for the year		-	-	-	-	-	-	4,992,679	4,992,679
Net changes in fair value of debt securities at fair value through other comprehensive income	43	-	-	-	-	221,596	-	-	221,596
Net changes in fair value of equity securities at fair value through other comprehensive income	43	-	-	-	-	179	-	-	179
Expected credit loss of debt securities at fair value through other comprehensive income	43	-	-	-	-	1,132	-	-	1,132
Gains on received books donations - library fund	43	-	-	-	-	-	42	-	42
Total comprehensive gain for 2023		-	-	-	-	222,907	42	4,992,679	5,215,628
Net unrealized positive price and exchange rate differences of gold allocated in other reserves	43	-	-	-	2,279,169	-	-	(2,279,169)	-
Net unrealized negative foreign exchange rate differences covered by other reserves	43	-	-	-	(79,669)	-	-	79,669	-
Net unrealized positive price differences of securities at fair value through profit and loss allocated in other reserves	43	-	-	-	1,605,706	-	-	(1,605,706)	-
Realized price differences of securities at fair value through profit and loss	43	-	-	-	(32,296)	-	-	32,296	-
Transfer to general reserves	43	-	256,151	-	-	-	-	(256,151)	-
Transfer to the special reserves	43	-	-	853,839	-	-	-	(853,839)	-
Transfer to the Budget of the Republic of North Macedonia	42	-	-	-	-	-	-	(109,779)	(109,779)
As at 31 December 2023		1,289,789	688,977	1,697,826	13,702,137	223,409	4,127	-	17,606,265

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

**Defined as revaluation reserve accounts according to the Law on the National Bank of the Republic of North Macedonia (revaluation reserve for financial instruments at fair value through profit and loss).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)*

STATEMENT OF CASH FLOWS			
	Note	2023	2022
Cash flow from operating activities			
Gain/Loss for the year		4,992,679	(2,066,874)
Adjusted for:			
Interest income	5	(2,984,237)	(497,572)
Interest expense	5	3,006,119	538,498
Effects of negative interest rates	5	(6,526)	(19,071)
Net unrealized price and exchange rate differences of gold		(2,279,169)	(1,263,020)
Net expense from securities at fair value through profit and loss		1,700,512	3,474,633
Net income from securities at fair value through other comprehensive income		(46,873)	-
Dividend income		(9,223)	(9,230)
Impairment		9,246	156,322
Charged provisions		29	22
Depreciation and amortization charge	26, 27	78,083	68,239
Cash flows from operating activities, before changes in operating assets and liabilities		4,460,640	381,947
Gold		(10,116)	38,848
Foreign securities		11,151,257	(3,904,086)
Receivables based on foreign repo transactions		8,902,551	(6,770,028)
Receivables from Government related to IMF		2,913,824	(6,453,701)
Other assets		88,352	(248,403)
Currency in circulation		3,356,290	2,460,100
Bank and saving house deposits		18,890,886	232,579
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		8,093,030	7,188,305
National Bank bills, inflows		86,699,296	99,140,328
National Bank bills, outflows		(86,764,000)	(99,879,000)
Liabilities based on foreign repo transactions		(4,874,586)	18,985,279
Government deposits, including restricted and other deposits		1,546,146	(6,210,149)
Borrowing from IMF - on behalf of and for the account of the Government		(2,913,824)	6,453,701
Other liabilities		58,455	(21,243)
Interest received		2,997,560	440,217
Interest paid		(2,420,891)	(314,238)
Dividends received		9,223	9,230
Net cash flows from operating activities		52,184,093	11,529,686
Acquisition of property, equipment and intangible assets		(132,418)	(113,210)
Net cash flows used in investing activities		(132,418)	(113,210)
Distributable earnings paid to the Budget of the Republic of North Macedonia		-	(46,108)
Net cash flows used for financing activities		-	(46,108)
Net increase in cash and cash equivalents		52,051,675	11,370,368
Cash and cash equivalents at the beginning of the year		56,643,100	45,272,732
Cash and cash equivalents at the end of the year	44	108,694,775	56,643,100

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 North 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, No. 83/18 dated 8 May 2018 and in the Official Gazette of the Republic of North Macedonia No. 110/21 dated 19 May 2021. 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.

Within four months after the end of a financial year, the National Bank announces and submits to the Assembly of the Republic of North Macedonia and to the Minister of Finance, reports approved by the National Bank Council, on the economic situation and movements in the fiscal year ended, as well as on the perspectives in the economy for the following year, particularly focusing on the implementation of the National Bank objectives and policies, as well as the condition of the banking system and the financial stability of the Republic of North Macedonia. Within this timeframe, the National Bank submits the annual financial statements approved by the National Bank Council, signed by the Governor of the National Bank and audited by an independent external auditor to the President of the Republic of North Macedonia, the Assembly of the Republic of North Macedonia, the President of the Government of the Republic of North Macedonia and the Minister of Finance.

The capital of the National Bank is owned by the Republic of North Macedonia and can be neither transferred nor be subject to any encumbrance. The net profits or losses of the National Bank are determined in accordance with the International Financial Reporting Standards. The distributable earnings are determined by deducting from the net profits/losses the total amount of unrealized revaluation gains (this amount is transferred to the revaluation reserve accounts) and by adding the amount of realized revaluation gains during the current period for which revaluation reserves were recognized in prior periods (this amount is deducted from the revaluation reserve accounts). Unrealized revaluation losses are covered by the respective revaluation reserve accounts until these revaluation reserve accounts are not reduced to a zero balance, after which these losses shall be covered by the current year's profit, then by the general reserve account and by the capital.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2023

(Amounts expressed in thousands of MKD unless otherwise stated)

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 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 such that up to 70% shall be transferred to the special reserves account until reaching the amount set by the National Bank Council to cover costs for previously planned purposes, and 70% of the remaining portion shall be allocated to general reserves until reaching the level of capital i.e. 15% after reaching the level of capital and the residual to the Budget of the Republic of North Macedonia. If the distributable earnings are negative, these earnings will be first covered by the general reserves, and then by the capital. If the value of the National Bank's assets falls below the sum of its liabilities and capital, the shortage will be covered by the Government of the Republic of North Macedonia with cash or negotiable debt instruments with a specified maturity issued at market interest rates prevailing in the Republic of North Macedonia.

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

The financial statements for the financial year 2023 were adopted by the National Bank Council on 28 February 2024.



Anita Angelovska Bezhoska, Ph.D.

Governor of the National Bank of the Republic of North Macedonia

Vesna Filipovska,

Manager

Finance, Accounting and Control Department

2. Summary of material 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 the 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 assets at fair value through other comprehensive income, gold, financial derivatives, and art works. Property, equipment, and intangible assets are measured at cost less accumulated depreciation / amortization and impairment losses, if any.

a) Changes in the environment

In 2023, the global economy faced several challenges, including the fallout from tightening of the monetary policies of the central banks of the leading economies, the temporary concern about the stability of the banking systems in the USA and Europe, the ongoing military actions in Ukraine, and later in the year, the tensions in the Middle East. However, the economic activity worldwide was relatively more favorable than expected at the beginning of the year, whereby the economic growth was moderate, but stable, as a result of the solid labor markets and the strong private consumption. In such conditions, the ECB¹ and the FED² in 2023 continued with normalizing the monetary policy and increasing the policy rates on several occasions. During the year, the inflation rates in the euro area and the USA were almost halved compared to 2022³. The stated circumstances led to volatility of the government bonds' yields on the international financial markets during the year, whereas they registered no major changes on an annual basis.

¹ European Central Bank - ECB.

² Federal Reserve System (Federal Reserve Bank of New York) – FED, is a system of central banks of the United States of America.

³ In the euro area, the inflation rate in 2023 reduced from 8.4% to 5.5% on average, and in the USA from 8% to 4.1%.

2. Summary of material accounting policies (Continued)

A Basis of preparation of Financial Statements (Continued)

a) Changes in the environment (Continued)

The international environment had a great impact on the domestic economy and consequently, the monetary policy response of the National Bank did not differ significantly from the policy stance of the major and most influential central banks. In response to the upward movements in inflation expectations, the National Bank started a cycle of monetary policy tightening at the end of 2021, aimed to maintain the exchange rate stability and stabilize inflation in the medium term, first through the interventions on the foreign exchange market, then by gradually increasing the policy rate (from April 2022), and the cycle of monetary policy tightening continued in 2023. The interest rate on the main monetary policy instrument, the National Bank bills, in 2023 increased on six occasions by a total of 1.55 percentage points to the level of 6.30%. Moreover, the interest rates on both overnight and seven-day deposit facilities increased evenly (by 1.55 percentage points), to the level of 4.20% and 4.25%, respectively. Given that the offered amount of CB bills was maintained at an unchanged level of MKD 10,000,000 thousand, the banks channeled the excess denar funds into the deposit facilities with the National Bank, mainly seven-day deposit facilities, whose average stock at the end of the year reached the historically highest level (about MKD 52,900,000 thousand). Such monetary policy setup led to a significant increase in the monetary costs in 2023.

In 2023, the National Bank continued to make amendments to the reserve requirement, aimed at encouraging the saving in denars, by encouraging appropriate changes in the banks' interest policy. Thus, the rate of reserve requirement from liabilities in foreign currency increased from 19% to 21%, and the part of the reserve requirement in euros that is met in euros increased from 75% to 81%. In addition, the rate for liabilities in denars with currency clause increased from 50% to 100%.

Such circumstances had their own reflection on the financial position of the National Bank.

Monetary expenses in 2023 had a significantly higher realization compared to 2022, as a result of the interest rates growth and the implementation of monetary instruments.

2. Summary of material accounting policies (Continued)

A Basis of preparation of Financial Statements (Continued)

a) Changes in the environment (Continued)

Monetary revenues in 2023 were affected by the relatively high interest rates and yields on the instruments within the foreign reserves. Hence, relatively high interest income from balances held at the current accounts with central banks, as well as relatively high income from investments in foreign securities were realized. The yields' volatility and the uncertainty about the future trend of interest rates continued to limit the possibilities for longer-term investments, but enabled active trading and additional income through sale of securities. The active approach in managing the foreign reserves had a favorably affected the results and contributed to outperformance of the trading portfolios compared to the benchmarks, which was largely due to the choice of instruments, i.e. the higher-yielding instruments in which foreign reserves were invested.

b) Initial application of new amendments to the existing standards effective for the current reporting period

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

- **IFRS 17 "Insurance Contracts"** – IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023;
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - The amendments include a definition of "accounting estimates" as well as other amendments to IAS 8 that distinguish changes in accounting policies from changes in accounting estimates (effective for annual reporting periods beginning on or after 1 January 2023); and
- **Amendments to IAS 1 "Presentation of Financial Statements"** – The amendments provide guidance on disclosing the material accounting policy information rather than the significant accounting policies (effective for annual reporting periods beginning on or after 1 January 2023).

The amendments to the existing standards and interpretations did not entail any material changes to the National Bank's Financial Statements.

c) New accounting standards, amendments to existing standards not yet effective

On the date of release of these Financial Statements, the following standards, amendments to existing standards and new interpretation were issued, but are not yet effective:

2. Summary of material accounting policies (Continued)

A Basis for preparation of the financial statements (Continued)

c) New accounting standards, amendments to existing standards not yet effective (Continued)

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Amendments for classification of liabilities as current or non-current that clarifies the guidance on whether a liability should be classified as either current or non-current (effective for annual reporting periods beginning on or after 1 January 2024);
- **Amendments to IFRS 16 "Leases"** - Amendments adding requirements for accounting for lease liability in a sale and leaseback after the date of transaction (effective for annual reporting periods beginning on or after 1 January 2024);
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Amendments set out in non-current liabilities with covenants that aim to improve the disclosures about long-term debt with covenants (effective for annual reporting periods beginning on or after 1 January 2024);
- **Amendments to IAS 7 and IFRS 7 "Cash flow Statements and Financial Instruments: Disclosures"** – Amendments related to increase of disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk (effective for annual reporting periods beginning on or after 1 January 2024); and
- **Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates"** – Amendments which clarify the approach that should be taken by preparers of financial statements when they are reporting foreign currency transactions, translating foreign operations, or presenting financial statements in a different currency, and there is a long-term lack of exchangeability between the relevant currencies (effective for annual reporting periods beginning on or after 1 January 2025).

The National Bank did not adopt these new standards, amendments to existing standards and new interpretations prior to 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 their initial application.

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

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

Transactions and balances

Assets and liabilities denominated in foreign currency are translated into MKD at the middle exchange rates ruling at the date of the Statement of Financial Position, except for the records of the quota of the Republic of North Macedonia for IMF membership, as well as the account no. 1 and the account no. 2 (notes 23 and 39c). Transactions denominated in foreign currency are translated into MKD at the exchange rates valid on the date of the transaction.

All exchange rate differences are recognized in the Income Statement.

Middle exchange rate:	31 December 2023	31 December 2022
	MKD	MKD
USD	55.6516	57.6535
EUR	61.4950	61.4932
SDR	74.5293	76.6655

C Offsetting

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

D Repo transactions

Securities sold subject to repurchase agreements ("repos") 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 liabilities based on repo transaction are 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 selling and repurchasing 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 subject to lending, on the reporting date, they are presented in the Financial Statements.

2. Summary of material accounting policies (Continued)

D Repo transactions (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 presented as gain or loss and included in the income statement for the relevant period. The obligation to return them is recorded at fair value as a trading liability. The repo transactions are stated at amortized cost, less impairment for expected credit losses (see Note 2J).

Collateralized gold transactions are considered as repurchase agreements. Liabilities based on collateralized gold transactions are included in liabilities based on foreign currency repo transactions. The gold which is subject of this agreement remain to be presented in the Statement of financial position of the National Bank and its price and exchange rate adjustment also remain to be done. The difference between selling and repurchasing price is treated as interest and it is accrued over the life of the agreements using the effective interest method.

E Foreign currency deposits

Foreign currency deposits are stated at amortized cost, less impairment for expected credit losses (see Note 2J).

F Monetary gold

Monetary gold consists of gold deposits held with correspondent banks and the stocks of gold bars made in accordance with international standards held in the vault of the National Bank. Depending on the contracts, interest is paid in USD or EUR at the maturity date. 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 asset 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 troy 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 from the changes in the gold market price and exchange rate differences of the MKD against the USD are recognized in the Income Statement. Interest from monetary gold is included in the interest income.

2. Summary of material accounting policies (Continued)

G Cash and cash equivalents

For the Statement of cash flows purpose, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: foreign currency deposits excluding any restricted deposits, foreign currencies in the National Bank vault and Special Drawing Rights (hereinafter: SDR⁴) holdings on the special account with the IMF.

H Financial assets

Classification and measurement of financial assets

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

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

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

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

- Business model whose objective is to hold assets in order to collect the contractual cash flows;
- Business model whose objective is collection of contractual cash flows and sale of financial assets; and
- Other business models (trading and gaining profit from the change in the fair value of assets).

⁴ Special Drawing Rights.

2. Summary of material accounting policies (Continued)

H Financial assets (Continued)

Classification and measurement of financial assets (Continued)

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 National Bank expects to receive solely "principal and interest". This category includes debt securities measured at amortized cost, loans and receivables with fixed or predictable payments that are not quoted in the active markets.

Debt securities measured at amortized cost, after initial recognition, are subsequently carried at amortized cost less impairment for expected credit losses. The amortized cost is equal to the amount at initial recognition, less the repayment of principal, increased or reduced by cumulative amortization 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 currencies, foreign currency deposits, special drawing rights, receivables based on foreign repo transactions, 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 losses are calculated (Note 2J).

Securities measured 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 for expected credit losses, the cumulative gains and losses stated in other comprehensive income and allocated to equity and reserves are included in the Income Statement for the period they refer to. For the financial assets measured at fair value through other comprehensive income expected credit losses are calculated (Note 2J).

For investments in equity instruments of specific financial institutions 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. For investments in foreign equity instruments for which there is no active market, but the fair value can be determined, valuation techniques to reliably determine fair value are used.

2. Summary of material 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 as well. 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 financial 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 National Bank's business, or when the changes in external or internal factors have a significant influence on the National Bank's activities.

Derecognition

The National Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred and the transfer is qualified for derecognition. The National Bank derecognizes the financial asset in full, or partially when it does not expect collection of the contractual receivables in full, or partially.

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 and for debt financial assets at fair value through other comprehensive income (deposits with foreign banks, debt securities, receivables based on repo transactions, receivables, loans and advances) is assessed on a regular basis and the amount of expected credit losses is determined. For investments in equity instruments measured at fair value through other comprehensive income, no calculation of expected credit losses is made.

2. Summary of material accounting policies (Continued)

J Impairment and uncollectibility of financial assets (Continued)

Expected credit losses are 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.

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 for expected credit losses is determined, appropriate to the credit risk stage in which the asset is classified.

Stage 1: expected credit losses - 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 losses are recognized as 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 losses 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 losses for the entire remaining economic life of the assets are recognized.

Stage 3: expected credit losses 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 National Bank classifies those financial assets into stage 3. These receivables are recorded in the accounts for bad and doubtful 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 losses are calculated as a product of the exposure to issuer/counterparty in the event of default, a loss that would be incurred in the event of default and the probability of default, discounted by the effective interest rate established at the initial recognition. The probability of default depends on the average long-term credit rating of the instruments: the lower the credit rating, the higher the probability of default.

2. Summary of material accounting policies (Continued)

K Trade and settlement date accounting

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

L Non-current assets or disposal groups held for sale

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

Non-current assets (or disposal group) held for sale are measured at lower of their carrying amount or the fair value less estimated costs for sale. 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

Property and equipment, is stated at cost less accumulated depreciation and impairment losses.

Land, numismatic coins, and library fund are stated at cost and are not depreciated.

The art works are recognized at their fair value and are not depreciated. The changes in the fair value are recognized in other comprehensive income in the revaluation reserves for art works.

Assets under construction are stated at their cost of construction including costs charged by third parties. No depreciation is charged on assets under 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.

Depreciation is calculated using the straight-line method based on the estimated useful life on the property and equipment, as follows:

2. Summary of material accounting policies (Continued)**M Property and equipment (Continued)**

	2023	2022
Buildings	5 to 50 years	5 to 50 years
Equipment	2 to 10 years	2 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, or if necessary, and it will be applied prospectively.

N Intangible assets

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

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

Right-of-use assets (leased assets) are initially measured at their cost at the date of the lease contract, which is equal to the opening balance of the lease liabilities increased for the lease payments made before or at the date of the lease contract and any directly related costs of the contract. Subsequently, the right-of-use assets are measured at initial carrying amount less any accumulated depreciation/amortization and impairment losses, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are initially recognized at the present value of the future lease payments, discounted using the rate implicit in the lease. If the rate is not specified in the contract, an incremental borrowing rate shall be used based on the annual interest rate prevailing on the long-term securities market issued by the Republic of North Macedonia, with maturity equal to or nearest to the agreed lease term. Subsequently, the lease liability is increased for lease interest expense, decreased for the lease payments made and it is adjusted for remeasurement of the amount expected to be paid or due to a change in future lease payments.

For the right-of-use assets (leased assets), depreciation / amortization is calculated using the straight-line method based on the contractual life of the leased asset, and the effects are recognized in the profit and loss statement. The effects of interest expense on the lease liability are recognized in the income statement where the expense is distributed over the entire lease period.

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

2. Summary of material accounting policies (Continued)

P Impairment losses of non-financial assets

Assets that have an indefinite useful life are not subject to depreciation and amortization and are tested annually for impairment. Assets that are subject to depreciation and amortization are reviewed at each reporting date for impairment whether events or changes in circumstances indicate that the carrying amount may not be appropriate (physically damaged, obsolete, stolen, lost or any other event that reduces the value in use of the asset). 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 of disposal and its value in use.

For the purposes of assessing impairment, assets are aggregated from the smallest group of assets, by the ability to generate independently cash flows (cash-generating units). Non-financial assets other than goodwill with recognized impairment losses are reviewed for possible reversal of the impairment losses at each reporting date.

Q Coins from precious metals

Coins from precious metals include jubilee coins and collector coins.

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

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

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

R Currency in circulation

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

2. Summary of material accounting policies (Continued)

S Short-term securities

The short-term securities (National Bank bills) are issued only in domestic currency and since 22 of March 2023, their maturity is 42/49 days, while in 2022 and until 21 of March 2023 their maturity was 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 the banks and saving houses to acquire them. Interest is accrued over the period to maturity. The National Bank bills are recognized initially at fair value and subsequently are stated at amortized cost.

T Deposits

Deposits are recognized initially at fair value. Subsequently deposits are stated at amortized cost. Deposits include bank and saving house deposits, bank and saving house deposit 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 paid off amount and the carrying amount is recognized in the income statement.

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 arising from equity investment classified as financial assets at fair value through other comprehensive income are recognized in the income statement when the right to receive payment is established.

2. Summary of material accounting policies (Continued)

W Recognition of income and expense (Continued)

Fee and other income and expense

Income from fees and commissions, and other income are recognized on an accrual basis.

Expenses based on fees and commissions, and other expenses are recognized on an accrual basis.

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

Net income/expense 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 change of the fair value of the transactions in derivative financial instruments are recognized in the income statement.

Net income/expense from financial assets at fair value through other comprehensive income

Net income/expense from securities measured at fair value through other comprehensive income includes realized gains and losses due to sales and unrealized negative fair value differences of securities for which there is no accumulated positive revaluation reserve (security-by-security principle) and they are recognized in the Income statement. Unrealized fair value differences of securities measured at fair value through other comprehensive income (security-by-security principle) are recognized in the Statement of other comprehensive income.

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

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.

According to the effective tax regulations, the National Bank is required to calculate withholding tax for services provided by foreign legal entities.

AA 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 and interest rate risk) and liquidity risk.

A Credit risk

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

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

The National Bank manages the credit risk through diversification of investments. In that regard, quantitative limits for credit exposure to individual countries and financial institutions are determined. Additionally, maximum amount is set on the exposure to the various types of securities⁵ and the outstanding amount of security issue.

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 issuers of debt securities (bonds, commercial papers, discounted papers and certificate of deposits) by credit standing. Creditworthiness of counterparties and bond issuers is based on the long-term rating set by the credit rating agencies. The long-term counterparty ratings are assessments and opinions on a banks' ability to repay punctually its foreign and/or domestic currency deposit obligations. Issuer ratings are assessments and opinions on the ability of issuers to honor financial obligations and contracts.

The National Bank determines the amount of the expected credit losses on the basis of the estimated probability, as difference between the contractual cash flows of the financial instrument and the cash flows that the National Bank expects to receive. The National Bank determines the amount of expected credit losses for financial assets measured at amortized cost and for financial assets measured at fair value through other comprehensive income.

⁵ Minimum allowed level is set on for the safest instruments.

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

The expected credit losses are measured against the default risk, depending on the level of the credit risk and whether the credit risk of the issuer/counterparty is significantly increased from the initial recognition of the exposure. The impairment of the exposures with investment credit rating and for which the credit risk is not significantly increased (Stage 1) is based on the probability of occurrence of a default event in the next 12 months. The impairment of those exposures that have undergone a significant increase of credit risk (Stage 2 and Stage 3) is based on expected credit losses for the entire economic life of the financial 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 losses are 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.

Within the credit risk management, the National Bank determines credit risk exposure of foreign reserves on a monthly basis, calculating both the expected and unexpected credit losses (according to the guidelines of Basel III for determining the required equity level for covering unexpected credit losses) of all instruments comprising the foreign reserves.

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 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

ASSETS	2023	2022
Foreign currency deposits	107,859,919	53,654,174
- Foreign currency sight deposits	76,758,735	44,224,516
- Foreign currency term deposits at foreign banks	31,101,184	9,429,658
Foreign securities	145,266,161	157,847,953
Gold deposits	25,390,596	23,113,182
Special Drawing Rights	13,249	24,679
Receivables based on foreign repo transactions	-	8,902,551
Receivables from Government related to IMF	29,150,319	32,643,436
Operating receivables and other assets	159,823	140,663
As at 31 December	307,840,067	276,326,638

The structural analysis of the National Bank's financial assets indicates increased participation of foreign currency term deposits at foreign banks in 2023. Namely, the possibility of realization of favorable interest income have increased the attractiveness of these assets in 2023. The higher amount of foreign currency sight deposits on central banks' current accounts in the euro area in 2023, is also due to the possibility of realizing favorable interest income, simultaneously protecting from interest and credit risk. The focus on the most liquid money market instruments contributed to lower share of investments in securities.

The tables below present an overview of the financial assets that are not past due, but impaired for expected credit losses (for financial instrument measured at amortized cost), by rating agency designation as at 31 December 2023 and 31 December 2022, 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 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

Financial assets which are individually impaired as at 31 December 2023 and 31 December 2022 are presented in "Foreign currency term deposits at foreign banks" (Note 17), "Foreign securities" (Note 18), "Receivables based on foreign repo transactions" (Note 21), "Other receivables" (Note 25) and "Operating receivables" (Note 29). The impairment for expected credit losses for investment in financial instruments ranges within Stage 1, without any movements from one stage of exposure to another. "Other receivables" (Note 25) and "Operating receivables" (Note 29) include also the fully impaired receivables that are being classified in Stage 3.

Credit rating as at 31 December 2023	Foreign currency sight deposits	Foreign currency term deposits at foreign banks	Foreign securities	Gold deposits	Special Drawing Rights	Receivables from the Government related to IMF	Operating receivables and other assets	Total
AAA	43,550,707	1,537,870	47,247,774	-	-	-	-	92,336,351
AA+	10,488,061	-	28,439,647	-	-	-	-	38,927,708
AA	1,854,375	-	18,462,562	-	-	-	-	20,316,937
AA-	933,238	3,080,542	17,207,819	25,371,014	-	-	-	46,592,613
A+	4,143,574	-	2,128,850	-	-	-	-	6,272,424
A	8,120	26,482,772	5,362,029	-	-	-	-	31,852,921
A-	2,468,265	-	5,168,638	-	-	-	-	7,636,903
IFI ⁶	1,545,184	-	8,799,621	19,582	13,249	-	-	10,377,636
BBB+	-	-	2,177,930	-	-	-	-	2,177,930
BBB	11,767,211	-	9,649,473	-	-	-	-	21,416,684
BBB-	-	-	621,818	-	-	-	-	621,818
BB ⁷	-	-	-	-	-	29,150,319	-	29,150,319
Unrated ⁸	-	-	-	-	-	-	159,823	159,823
Total	76,758,735	31,101,184	145,266,161	25,390,596	13,249	29,150,319	159,823	307,840,067

⁶ International Financial Institutions.

⁷ Rating of the Republic of North Macedonia.

⁸ Clients in the country that do not have a credit rating according to the internationally recognized credit rating agencies „Standard & Poor's", „Moody's" and/or „Fitch".

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2023

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

A Credit risk (Continued)

Credit rating as at 31 December 2022	Foreign currency sight deposits	Foreign currency term deposits at foreign banks	Foreign securities	Gold deposits	Special Drawing Rights	Receivables based on foreign repo transactions	Receivables from the Government related to IMF	Operating receivables and other assets	Total
AAA	18,700,891	-	37,481,054	-	-	-	-	-	- 56,181,945
AA+	7,389,572	-	35,651,860	-	-	-	-	-	- 43,041,432
AA	1,850,992	-	26,416,696	4,182,188	-	-	-	-	- 32,449,876
AA-	11,601	-	16,294,976	18,913,167	-	-	-	-	- 35,219,744
A+	4,426,934	-	6,454,913	-	-	-	-	-	- 10,881,847
A	44,816	9,429,658	4,039,385	-	-	8,902,551	-	-	- 22,416,410
A-	7,847	-	11,381,982	-	-	-	-	-	- 11,389,829
IFI ⁹	32,989	-	3,634,707	17,827	24,679	-	-	-	- 3,710,202
BBB+	-	-	2,190,484	-	-	-	-	-	- 2,190,484
BBB	11,758,874	-	13,683,951	-	-	-	-	-	- 25,442,825
BBB-	-	-	617,945	-	-	-	-	-	- 617,945
BB ¹⁰	-	-	-	-	-	-	32,643,436	-	- 32,643,436
Unrated ¹¹	-	-	-	-	-	-	-	140,663	140,663
Total	44,224,516	9,429,658	157,847,953	23,113,182	24,679	8,902,551	32,643,436	140,663	276,326,638

⁹ International Financial Institutions.

¹⁰ Rating of the Republic of North Macedonia.

¹¹ Clients in the country that do not have a credit rating according to the internationally recognized credit rating agencies „Standard & Poor's“, „Moody's“ and/or „Fitch“.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)****Concentration of risks of financial assets with credit risk exposure**

The following table breaks down the credit exposure of National Bank's assets carried at their carrying amounts, categorized by geographical regions as of 31 December 2023. 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 countries¹²	Other countries	Total
Foreign currency sight deposits	69,223,080	1,545,817	-	5,989,784	54	76,758,735
Foreign currency term deposits at foreign banks	13,813,077	-	-	14,207,565	3,080,542	31,101,184
Foreign securities	127,887,903	934,851	-	14,961,162	1,482,245	145,266,161
Gold deposits	-	23,094,884	-	2,295,712	-	25,390,596
Special Drawing Rights	-	-	-	13,249	-	13,249
Receivables from Government related to IMF	-	-	29,150,319	-	-	29,150,319
Operating receivables and other assets	-	-	159,823	-	-	159,823
31 December 2023	210,924,060	25,575,552	29,310,142	37,467,472	4,562,841	307,840,067
31 December 2022	181,479,498	21,675,495	32,784,099	35,600,517	4,787,029	276,326,638

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 market value reduction of the financial instruments due to the unfavorable movements of interest rates. The market risk management is performed by setting an adjusted duration for the portfolios which is monitored on a daily basis. Additionally, the market risk is also controlled 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 for a particular time horizon.

¹² Other member countries of the Organization for Economic Co-operation and Development (OECD) are countries which are not categorized as EU members or Non-EU member countries.

3. Financial risk management (Continued)

B Market risk (Continued)

The National Bank, when calculating VAR, applies a level of confidence of 95% for a one year horizon¹³, and 99% for a 10-day horizon¹⁴.

In December 2023, the exposure of the foreign reserves managed by the National Bank (Value at Risk at a level of confidence of 99% for a 10-day horizon), in terms of fluctuations of the prices of instruments and foreign exchange rates against the Euro equals MKD 1,822,047 thousand (Euro 29,629,185), or 0.65% of the foreign reserves. The VAR originating from the change in the foreign exchange rate for the same horizon (on a diversified basis, including the change of the gold price) amounts to MKD 1,562,849 thousand (Euro 25,414,248), while VAR from the change in the prices of instruments in which the foreign reserves are invested amounts to MKD 259,198 thousands (Euro 4,214,937).

	31 December 2023	31 December 2022
Currency risk	1,562,849	1,564,485
Interest rate risk	259,198	284,013
Total VAR	1,822,047	1,848,498

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 price of 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 liabilities of the National Bank and external liabilities of the Government, the type of foreign trade, and other liquidity needs. 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. Taking into consideration 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 2023 and 31 December 2022, analyzed by currency.

¹³ For internal assessment of the set budget for risk.

¹⁴ As recommended in the Basel Agreement from 1999.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2023:

ASSETS	EUR	USD	SDR	Other Currencies	MKD	Total
Foreign currencies	531,678	270,410	-	19,519	-	821,607
Foreign currency deposits	100,308,997	1,858,164	-	5,692,758	-	107,859,919
Foreign securities	145,226,101	-	40,060	-	-	145,266,161
Gold	-	25,436,908	-	-	-	25,436,908
Special Drawing Rights	-	-	13,249	-	-	13,249
Receivables from Government related to IMF	-	-	29,150,319	-	-	29,150,319
IMF Membership	-	-	10,528,522	-	-	10,528,522
Operating receivables and other assets	936	119	103,611	13,283	41,874	159,823
Total assets	246,067,712	27,565,601	39,835,761	5,725,560	41,874	319,236,508
LIABILITIES						
Currency in circulation	-	-	-	-	57,208,828	57,208,828
Bank and saving house deposits	12,162,790	-	-	-	81,044,221	93,207,011
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	35,217,918	-	-	-	24,079	35,241,997
National Bank Bills issued	-	-	-	-	9,946,097	9,946,097
Liabilities based on foreign repo transactions	18,103,536	278,427	-	4,102,947	-	22,484,910
Government deposits	15,481,745	26,788	-	10,084	25,796,921	41,315,538
Restricted deposits	146,462	61,811	-	-	-	208,273
Payables to IMF	-	-	39,678,841	-	-	39,678,841
Other deposits	-	-	-	-	3,271,500	3,271,500
Other liabilities	281,215	16,735	103,611	33,465	317,247	752,273
Total liabilities	81,393,666	383,761	39,782,452	4,146,496	177,608,893	303,315,268
Net financial position	164,674,046	27,181,840	53,309	1,579,064	(177,567,019)	15,921,240

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2022:

ASSETS	EUR	USD	SDR	Other Currencies	MKD	Total
Foreign currencies	2,397,435	543,022	-	23,790	-	2,964,247
Foreign currency deposits	47,193,837	1,952,128	-	4,508,209	-	53,654,174
Foreign securities	157,691,806	114,939	41,208	-	-	157,847,953
Gold	-	23,155,343	-	-	-	23,155,343
Special Drawing Rights	-	-	24,679	-	-	24,679
Receivables based on foreign repo transactions	8,902,551	-	-	-	-	8,902,551
Receivables from Government related to IMF	-	-	32,643,436	-	-	32,643,436
IMF Membership	-	-	11,070,941	-	-	11,070,941
Operating receivables and other assets	23,738	4	70,419	12,490	34,012	140,663
Total assets	216,209,367	25,765,436	43,850,683	4,544,489	34,012	290,403,987
LIABILITIES						
Currency in circulation	-	-	-	-	53,852,538	53,852,538
Bank and saving house deposits	6,464,468	-	-	-	67,830,797	74,295,265
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	27,125,601	-	-	-	23,366	27,148,967
National Bank Bills issued	-	-	-	-	9,450,579	9,450,579
Liabilities based on foreign repo transactions	22,915,335	-	-	4,440,273	-	27,355,608
Government deposits	16,343,803	12,845	-	4,055	23,983,580	40,344,283
Restricted deposits	77,239	64,872	-	-	-	142,111
Payables to IMF	-	-	43,714,377	-	-	43,714,377
Other deposits	-	-	-	-	2,762,513	2,762,513
Other liabilities	222,940	17,256	70,419	31,561	211,626	553,802
Total liabilities	73,149,386	94,973	43,784,796	4,475,889	158,114,999	279,620,043
Net financial position	143,059,981	25,670,463	65,887	68,600	(158,080,987)	10,783,944

3. Financial risk management (Continued)

D Interest rate risk

The National Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of financial assets and liabilities.

The primary objective of the National Bank is achieving and maintaining price stability, which bestows it a discretionary right to determine the interest rates on the monetary policy instruments in the monetary policy conduct. On the other hand, the National Bank is exposed to interest rate risk related to the foreign reserves management, mainly due to the influence of the external changes on the financial markets.

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as of 31 December 2023 and 31 December 2022 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 2023
(Amounts expressed in thousands of MKD unless otherwise stated)
3. Financial risk management (Continued)
D Interest rate risk (Continued)

As at 31 December 2023:

	Interest-bearing items					Total Interest-bearing items	Non-interest bearing items	Total
	Up to 1 month or at variable rates	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years			
ASSETS								
Foreign currencies	-	-	-	-	-	-	821,607	821,607
Foreign currency deposits	104,584,339	3,074,750	-	-	-	107,659,089	200,830	107,859,919
Foreign securities	123,090	1,046,057	84,009,453	39,497,571	312,714	124,988,885	20,277,276	145,266,161
Gold	-	2,295,523	3,457,908	-	-	5,753,431	19,683,477	25,436,908
Special drawing rights	13,249	-	-	-	-	13,249	-	13,249
Receivables from Government related to IMF	-	-	-	-	-	-	29,150,319	29,150,319
IMF Membership	-	-	-	-	-	-	10,528,522	10,528,522
Operating receivables and other assets	-	-	-	-	-	-	159,823	159,823
Total assets	104,720,678	6,416,330	87,467,361	39,497,571	312,714	238,414,654	80,821,854	319,236,508
LIABILITIES								
Currency in circulation	-	-	-	-	-	-	57,208,828	57,208,828
Bank and saving house deposits	61,519,000	-	-	-	-	61,519,000	31,688,011	93,207,011
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	-	-	-	-	-	-	35,241,997	35,241,997
National Bank Bills issued	9,927,040	-	-	-	-	9,927,040	19,057	9,946,097
Liabilities based on foreign repo transactions	21,312,817	1,161,547	-	-	-	22,474,364	10,546	22,484,910
Government deposits	9,820,025	-	-	-	-	9,820,025	31,495,513	41,315,538
Restricted deposits	-	-	-	-	-	-	208,273	208,273
Payables to IMF	-	-	-	-	-	-	39,678,841	39,678,841
Other deposits	-	-	-	-	-	-	3,271,500	3,271,500
Other liabilities	-	-	-	-	-	-	752,273	752,273
Total liabilities	102,578,882	1,161,547	-	-	-	103,740,429	199,574,839	303,315,268
Total interest rate risk	2,141,796	5,254,783	87,467,361	39,497,571	312,714	134,674,225	(118,752,985)	15,921,240

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2023
(Amounts expressed in thousands of MKD unless otherwise stated)
3. Financial risk management (Continued)
D Interest rate risk (Continued)

As at 31 December 2022:

	Interest-bearing items					Total Interest-bearing items	Non-interest bearing items	Total
	Up to 1 month or at variable rates	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years			
ASSETS								
Foreign currencies	-	-	-	-	-	-	2,964,247	2,964,247
Foreign currency deposits	53,599,667	-	-	-	-	53,599,667	54,507	53,654,174
Foreign securities	-	514,206	95,329,729	39,252,455	-	135,096,390	22,751,563	157,847,953
Gold	-	-	9,417,270	-	-	9,417,270	13,738,073	23,155,343
Special drawing rights	24,679	-	-	-	-	24,679	-	24,679
Receivables based on foreign repo transactions	8,896,365	-	-	-	-	8,896,365	6,186	8,902,551
Receivables from Government related to IMF	-	-	-	-	-	-	32,643,436	32,643,436
IMF Membership	-	-	-	-	-	-	11,070,941	11,070,941
Operating receivables and other assets	-	-	-	-	-	-	140,663	140,663
Total assets	62,520,711	514,206	104,746,999	39,252,455	-	207,034,371	83,369,616	290,403,987
LIABILITIES								
Currency in circulation	-	-	-	-	-	-	53,852,538	53,852,538
Bank and saving house deposits	49,529,919	122,986	-	-	-	49,652,905	24,642,360	74,295,265
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	-	-	-	-	-	-	27,148,967	27,148,967
National Bank Bills issued	9,429,453	-	-	-	-	9,429,453	21,126	9,450,579
Liabilities based on foreign repo transactions	22,905,942	4,443,008	-	-	-	27,348,950	6,658	27,355,608
Government deposits	10,687,111	-	-	-	-	10,687,111	29,657,172	40,344,283
Restricted deposits	-	-	-	-	-	-	142,111	142,111
Payables to IMF	-	-	-	-	-	-	43,714,377	43,714,377
Other deposits	-	-	-	-	-	-	2,762,513	2,762,513
Other liabilities	-	-	-	-	-	-	553,802	553,802
Total liabilities	92,552,425	4,565,994	-	-	-	97,118,419	182,501,624	279,620,043
Total interest rate risk	(30,031,714)	(4,051,788)	104,746,999	39,252,455	-	109,915,952	(99,132,008)	10,783,944

3. Financial risk management (Continued)

E Liquidity risk

Liquidity risk is the risk of insufficiency of liquid funds for normal performance of the functions of the National Bank. The main objective of the National Bank in managing the liquidity risk is explained in Note 1.

Liquidity is maintained by placing foreign currencies on current accounts, 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 meeting the transactional needs in the management of foreign reserves. According to the Foreign Reserves Management and Investment Policy and Regulation, liquidity risk management is consistent with the best global practices. Consequently, in order to optimize the foreign reserves management, while taking into account the different commitments and purposes of the foreign reserves in different time periods, the foreign reserves are allocated in portfolios: working capital (operational portfolio), liquidity and investment portfolios.

The operational portfolio provides liquidity to realize cash flows for a period of one month, and the level of the liquidity portfolio is determined dynamically, at the minimum level of the operational portfolio for the following 12 months. The Investment portfolio, may have an investment horizon of more than one year and is managed in order to enhance the return on foreign reserves. The operational and the liquidity portfolio are forecasted at least once a year, and reviewed periodically based on the forecast of the needs for liquidity, the expected foreign currency needs of the country in the medium term and the vulnerability assessment of the balance of payments. The maximum maturity of the deposits in the operational portfolio is two weeks, whereas the maximum remaining maturity date for the debt securities is up to one month. The modified duration of the liquidity portfolio is lower than the investment portfolio and is determined depending on the market conditions and the acceptable level of interest rate risk. Availability of foreign exchange liquidity is not confined to the operational and the liquidity portfolio, when the investment in debt securities (measured at fair value through profit and loss and through other comprehensive income) provides sufficient liquidity through their prompt conversion into cash 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 2023
(Amounts expressed in thousands of MKD unless otherwise stated)
3. Financial risk management (Continued)
E Liquidity risk (Continued)

31 December 2023	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	Over 5 years	Total
LIABILITIES						
Currency in circulation	57,208,828	-	-	-	-	57,208,828
Bank and saving house deposits	75,950,413	-	17,256,598	-	-	93,207,011
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	-	-	35,241,997	-	-	35,241,997
National Bank Bills issued	9,946,097	-	-	-	-	9,946,097
Liabilities based on foreign repo transactions	21,323,639	1,161,271	-	-	-	22,484,910
Government deposits	41,315,538	-	-	-	-	41,315,538
Restricted deposits	195,334	12,939	-	-	-	208,273
Payables to IMF	26,869,676	-	3,921,173	8,887,992	-	39,678,841
Other deposits	3,271,500	-	-	-	-	3,271,500
Other liabilities	606,836	109,779	35,658	-	-	752,273
Total liabilities (contractual maturity dates)	236,687,861	1,283,989	56,455,426	8,887,992	-	303,315,268
Assets held for managing liquidity risk (expected maturity dates)	255,774,509	6,427,574	8,066,111	48,604,830	363,484	319,236,508
31 December 2022	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	Over 5 years	Total
LIABILITIES						
Currency in circulation	53,852,538	-	-	-	-	53,852,538
Bank and saving house deposits	56,769,962	122,986	17,402,317	-	-	74,295,265
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	-	-	27,148,967	-	-	27,148,967
National Bank Bills issued	9,450,579	-	-	-	-	9,450,579
Liabilities based on foreign repo transactions	27,355,608	-	-	-	-	27,355,608
Government deposits	40,344,283	-	-	-	-	40,344,283
Restricted deposits	132,529	9,582	-	-	-	142,111
Payables to IMF	26,504,506	-	2,689,042	14,520,829	-	43,714,377
Other deposits	2,762,513	-	-	-	-	2,762,513
Other liabilities	515,018	-	38,784	-	-	553,802
Total liabilities (contractual maturity dates)	217,687,536	132,568	47,279,110	14,520,829	-	279,620,043
Assets held for managing liquidity risk (expected maturity dates)	221,646,741	2,624,265	12,097,724	53,994,049	41,208	290,403,987

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2023

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

F Fair value of financial assets and liabilities

Fair value represents the price of an asset traded (including its conversion into cash) or a liability settled at arm's length transaction between market participants at the reporting 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:

Financial assets	Carrying value		Fair value	
	2023	2022	2023	2022
<i>Carried at amortized cost</i>				
Foreign currencies	821,607	2,964,247	821,607	2,964,247
Foreign currency deposits	107,859,919	53,654,174	107,859,919	53,654,174
Foreign debt securities	41,900,906	42,077,870	40,479,751	39,301,021
Special Drawing Rights	13,249	24,679	13,249	24,679
Receivables based on foreign repo transactions	-	8,902,551	-	8,902,551
Receivable from Government related to IMF	29,150,319	32,643,436	29,150,319	32,643,436
IMF Membership	10,528,522	11,070,941	10,528,522	11,070,941
Operating receivables and other assets	159,823	140,663	159,823	140,663
	190,434,345	151,478,561	189,013,190	148,701,712
<i>Carried at fair value through other comprehensive income</i>				
Foreign equity securities	40,060	41,208	40,060	41,208
	40,060	41,208	40,060	41,208

Financial liabilities	Carrying value		Fair value	
	2023	2022	2023	2022
<i>Carried at amortized cost</i>				
Currency in circulation	57,208,828	53,852,538	57,208,828	53,852,538
Bank and saving house deposits	93,207,011	74,295,265	93,207,011	74,295,265
Reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD	35,241,997	27,148,967	35,241,997	27,148,967
National Bank bills issued	9,946,097	9,450,579	9,946,097	9,450,579
Liabilities based on foreign repo transactions	22,484,910	27,355,608	22,484,910	27,355,608
Government MKD deposits	25,796,921	23,983,580	25,796,921	23,983,580
Government foreign currency deposits	15,518,617	16,360,703	15,518,617	16,360,703
Payables to IMF	39,678,841	43,714,377	39,678,841	43,714,377
Other and restricted deposits	3,479,773	2,904,624	3,479,773	2,904,624
Other liabilities	752,273	553,802	752,273	553,802
	303,315,268	279,620,043	303,315,268	279,620,043

3. Financial risk management (Continued)

F Fair value of financial assets and liabilities (Continued)

Financial assets

The fair value of foreign currencies, foreign currency deposits, Special Drawing Rights, receivables based on foreign repo transactions, IMF Membership and receivables carried at amortized cost, approximates their carrying values due to their short-term nature.

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.

The fair value of foreign equity securities carried at fair value through other comprehensive income and referred to the BIS¹⁵ shares, cannot be reliably determined and therefore are carried at cost. Thus, it is considered that their cost reflects their fair 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.

The fair value of liabilities based on foreign repo transactions carried at amortized cost corresponds to their carrying values due to the fact that the fair value of given collateral is being monitored and it is appropriately adjusted by pledging or returning securities or by transfer of the funds.

Due to the specific role of the IMF as an international financial institution, the fair value of liabilities based on IMF Membership, SDR allocation and borrowing from IMF on behalf and for the account of the Government do not differ from their carrying amounts.

¹⁵ Bank for International Settlements – BIS.

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

31 December 2023	Level 1	Level 2	Level 3	Total
Foreign debt securities	103,322,332	-	-	103,322,332
Gold	25,436,908	-	-	25,436,908
Foreign equity securities	-	-	2,863	2,863
Total financial assets at fair value	128,759,240	-	2,863	128,762,103

31 December 2022	Level 1	Level 2	Level 3	Total
Foreign debt securities	115,726,191	-	-	115,726,191
Gold	23,155,343	-	-	23,155,343
Foreign equity securities	-	-	2,684	2,684
Total financial assets at fair value	138,881,534	-	2,684	138,884,218

4. Critical accounting estimates and judgments in applying accounting policies

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

Fair value of financial instruments

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

The National Bank applies its models consistently from one period to another, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment.

In the Republic of North Macedonia there is no sufficient market experience, stability, and liquidity for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are not readily available. 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 an impairment loss. In the opinion of the National Bank, the reported carrying amounts for the assets that are not quoted in an active market, for reporting purposes, represent the most valid and useful values under the present market conditions (Note 3F).

Useful lives of tangible and intangible assets

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

Actuarial assumptions in respect of employees' defined benefit plan

Any costs for the National Bank depend on the occurrence of realization of future benefits for the employees and especially on the discount rate changes and increase of the payments. There are other factors that may 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 42).

Impairment for expected credit losses of financial assets

The National Bank calculates the expected credit losses for financial assets measured at amortized cost and for financial assets measured at fair value through other comprehensive income. The determination of the input to the model for measuring the expected loan losses is described in Note 3A.

5. Net interest expense**Interest income**

Interest Income	2023	2022
Foreign entities	2,977,092	481,203
Current accounts in foreign currency	1,448,879	127,228
Foreign currency term deposits	633,828	74,294
Securities at amortized cost	310,119	181,045
Securities at fair value through other comprehensive income	302,357	-
Reverse repos in foreign currency with received collateral in securities	248,707	76,448
Gold deposits	33,202	22,188
Other entities	6,990	7,533
Penalty interest from private non-financial entities	6,990	7,533
Domestic banks	77	8,813
Domestic banks' short-term loans based on auction repo transactions in MKD	-	8,812
Other interest	77	1
Government	78	23
Other interest	78	23
Total	2,984,237	497,572

The increase of interest income in 2023 is due to relatively high interest rates and yields of financial instruments in which the foreign assets have been invested. At the same time, high interest income was realized as a result of the higher amount of foreign currency sight deposits at current accounts with the central banks of the member countries of the euro area, placements in term foreign currency deposits with foreign banks where an increased participation in 2023 was registered, as well as, as a result of the relatively high income from investments in securities.

5. Net interest expense (Continued)**Interest expense**

Interest Expenses	2023	2022
Domestic banks and saving houses	2,268,762	417,757
MKD deposits	1,704,381	220,115
National Bank bills	560,222	196,186
Foreign currency deposits	4,159	1,456
Foreign entities	729,958	109,588
Repos in foreign currency with pledged collateral in securities	729,958	109,588
Government	7,356	11,132
MKD deposits	6,247	10,805
Foreign currency deposits	1,109	327
Other entities	43	21
Interest for long term right-of-use assets	43	21
Total	3,006,119	538,498

The increase of the interest expenses in 2023 is due to the increased interest rates on several occasions, the implementation of various monetary instruments and the increased level of the monetary policy instruments for liquidity withdrawal.

Effects of negative interest rates

Effects of negative interest rates	2023	2022
Foreign entities	6,526	(55,736)
Repos in foreign currency with pledged collateral in gold	6,974	11,608
Repos in foreign currency with pledged collateral in securities	-	64,247
Current accounts in foreign currency	(448)	(74,083)
Reverse repos in foreign currency with received collateral in securities	-	(57,508)
Domestic banks	-	74,807
Reserve requirement of banks in foreign currency	-	73,001
Foreign currency deposits	-	1,806
Total	6,526	19,071

6. Net fee income**Fee income**

	2023	2022
Fees from domestic banks for maintaining account based on debt turnover on an account	297,682	182,080
Fees for providing cash to banks	62,662	57,083
Fees based on settlement of payments (RTGS)	36,944	33,814
Fees from foreign exchange operations with public sector	26,602	26,963
Income from fees for all types of consents	17,679	10,654
Fees for cash returned by the banks to the National Bank's vault	17,292	16,345
Other fees from payment system operations in the country	18,403	16,149
Other fees	2,924	1,618
Total	480,188	344,706

The fees that National Bank charges are regulated with the Decision on the type and amount of the fees for services rendered by the National Bank, as well as by an individual agreements concluded with certain government bodies.

Revenues from fees for debt turnover on an account, providing cash to banks and cash returned by banks to the National Bank vault, as well as settlement of payments through RTGS¹⁶ relate to services that the National Bank provides to domestic banks and other account holders in RTGS.

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

Fee expense

	2023	2022
Fees for Securities Depositories	9,868	14,485
Fees for services received from foreign banks	8,471	6,793
Other fees	178	542
Total	18,517	21,820

Fees paid to foreign banks refer to maintenance of services for the National Bank's accounts, transactions performed with the National Bank's deposits and other foreign exchange transactions, and they depend on the tariffs charged by foreign banks and the types of services used.

The largest part of the expenses for fees refers to the securities operations expenses that the National Bank pays to depositories and foreign banks and to the expenses based on foreign banks services.

¹⁶ 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 2023
(Amounts expressed in thousands of MKD unless otherwise stated)
7. Net unrealized price and exchange rate differences

	2023	2022
Unrealized positive exchange rate differences	6,765,750	8,426,799
Unrealized negative exchange rate differences	(6,845,419)	(8,476,912)
Unrealized negative exchange rate differences that affect the financial result	(111,753)	-
Unrealized positive price and exchange rate differences from gold	22,604,927	24,030,793
Unrealized negative price and exchange rate differences from gold	(20,325,758)	(22,969,302)
Total	2,087,747	1,011,378

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

	2023	2022
Realized gains from securities at fair value through profit and loss	887,265	12,636
Realized losses from securities at fair value through profit and loss	(19,154)	(293,520)
Unrealized positive price differences from securities at fair value through profit and loss, net	1,605,706	32,296
Unrealized negative price differences from securities at fair value through profit and loss, net	(1,731)	(3,768,609)
Interest income from securities at fair value through profit and loss	594,681	759,080
Total net income/expense from securities at fair value through profit and loss	3,066,767	(3,258,117)
Realized gains from futures-transactions	-	11,030
Total gain from derivatives	-	11,030
Total net income/expense from securities at fair value through profit and loss and derivatives	3,066,767	(3,247,087)

9. Net income from securities measured at fair value through other comprehensive income

	2023	2022
Realized gains from securities measured at fair value through other comprehensive income	58,238	-
Unrealized negative price changes from securities measured at fair value through other comprehensive income, net	(11,365)	-
Total net income from securities measured at fair value through other comprehensive income	46,873	-

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***9. Net income from securities measured at fair value through other comprehensive income (Continued)**

Unrealized negative price changes for which there isn't any prior accumulated positive revalorization reserve (on the principle of "security by security") are recognized in the income statement.

10. Net realized price and exchange rate differences

	2023	2022
Realized positive exchange rate differences from transactions on foreign exchange market with the Government	81,365	68,656
Realized positive exchange rate differences from remittance	52,347	47,682
Realized positive exchange rate differences from arbitration with foreign banks, net	36,471	104,411
Realized positive exchange rate differences from interventions with domestic banks, net	27,973	17,164
Realized positive price and exchange rate differences from gold, net	-	201,528
Realized negative exchange rate differences on other basis, net	(14)	(4)
Total	198,142	439,437

The net realized positive exchange rate and price differences arise from the difference between middle and ask rate when selling foreign currencies to government bodies for the purpose of making international foreign exchange payments and due to purchase and sale of foreign currencies with foreign banks, as well as from foreign exchange market interventions with the domestic banks.

11. Dividend income

	2023	2022
Dividend income on investments in BIS	9,223	9,230
Total	9,223	9,230

In 2023, the National Bank generated dividend income on investments in BIS. The dividend was received in June 2023 after the announcement of the BIS's decision of the 93rd annual assembly for payment of the regular dividend for 2023/2022. In June 2022, the dividend was received, after the announcement of the BIS's decision of the 92nd annual assembly for payment of the regular dividend for 2022/2021.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***12. Other income**

	2023	2022
Revenue for maintenance of the Bank complex	15,195	12,430
Revenue from automatic securities lending	14,762	13,573
Revenue from penalty interest for settlement delay by foreign banks	3,360	3,810
Revenue for receipt, keeping and issuing cigarette and alcohol tax stamps - bundles	2,639	2,021
Revenue from refunds from business trips abroad	2,647	855
Contract negligence penalty income	18	296,999
Income on other basis	5,764	5,072
Total	44,385	334,760

Due to termination of the new building construction contract in 2022, the National Bank calculated revenues from contractual penalty for the delay or breach of the contract in the amount of MKD 295,466 thousand, MKD 147,733 thousands of which were collected.

13. Personnel expenses

	2023	2022
Wages and personal income tax	394,659	338,431
Pension cost – defined contribution plans	103,052	88,382
Mandatory contributions	50,430	43,251
Other personnel expenses	22,894	21,126
Total	571,035	491,190

The total number of employees in National Bank as of 31 December 2023 is 457 (as of 31 December 2022: 442).

Personnel expenses are related to short-term employee benefits. The remuneration of the key management of the National Bank in 2023 is amounted to MKD 21,499 thousand (2022: MKD 19,034 thousand), and it is included in "Personnel expenses" above.

14. Other expenses

	2023	2022
Costs for services received	101,472	83,249
Costs of production of banknotes and coins	89,648	74,473
Overhead and material expenses	35,871	30,497
Other administrative expenses	19,891	10,752
Expenses on other basis	1,297	829
Total	248,179	199,800

The costs of banknotes and coins manufacturing mainly relate to purchased banknotes and coins. Banknotes are printed and coins are minted by domestic or foreign manufacturers. The National Bank adopts a policy of differentiating the costs of manufacturing of banknotes and coins depending on the period of their use, within a period of 2 to 4 years.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***15. Provisions and Impairment, net**

	Note	2023	2022
Impairment of interest receivables, net	29	6,985	7,420
Impairment of receivables from fees and commissions, net	29	1,676	1,418
(Released) impairment of loans and placements	25	(800)	-
Impairment of operating receivables, net	29	659	442
Impairment for receivables for contract negligence penalty	29	-	147,733
Provisions for potential liabilities based on litigations	41	29	22
(Released) impairment for expected credit losses on foreign securities at amortized cost, net	18	(406)	(692)
Impairment for expected credit losses on foreign currency term deposits, net	17	201	51
Impairment for expected credit losses on foreign securities at fair value through other comprehensive income	18,43	1,132	-
Total provisions and impairment, net		9,476	156,394

Released impairment of loans and placements in 2023 is due to the collection of part of a receivable from a domestic bank that declared bankruptcy in the amount of MKD 800 thousand (Note 25).

Financial assets' impairment in 2022 mainly refers to bad and doubtful receivable from contractual penalty, from accrued penalty interest on uncollected receivables, related to fees and commissions for early termination of the contract on construction of the new National Bank building, in the total amount of MKD 156,068 thousand (Note 29).

16. Foreign currencies

	2023	2022
Euro	531,678	2,397,435
US dollars	270,410	543,022
British pounds	5,860	8,265
Australian dollars	5,036	4,204
Canadian dollars	2,271	2,231
Swiss franc	2,104	4,131
Other currencies	4,248	4,959
Total	821,607	2,964,247

Foreign currencies include cash in foreign currency. Foreign currencies are included in cash equivalents for the purposes of the Cash Flow Statement (Note 44).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***17. Foreign currency deposits**

	2023	2022
Foreign currency sight deposits	76,758,735	44,224,516
Foreign currency term deposits at foreign banks	31,101,436	9,429,709
Impairment for expected credit losses	(252)	(51)
Included in the cash and cash equivalents (Note 44)	107,859,919	53,654,174
Total	107,859,919	53,654,174

As of 31 December 2023, the foreign currency sight deposits include net accrued interest in the amount of MKD 179,220 thousand (2022: MKD 51,756 thousand). As at 31 December 2023, the foreign currency term deposits include accrued interest in the amount of MKD 21,863 thousand (2022: MKD 2,801 thousand).

As at 31 December 2023, the impairment for expected credit losses on foreign currency term deposits amounted to MKD 252 thousand (2022: MKD 51 thousand).

The movement of the impairment for expected credit losses on foreign currency term deposits is shown in the table below:

	Note	2023	2022
Balance as at 1 January		51	-
Increase of impairment for expected credit losses on foreign currency term deposits	15	252	51
(Released) impairment for expected credit losses on foreign currency term deposits	15	(51)	-
Balance as at 31 December		252	51

The average deposit interest rates depending on the deposit currency and adequate investments in deposits, in 2023 and 2022, annually, equaled:

Interest rate	2023	2022
- Overnight deposits in USD	4.99%	1.63%
- Overnight deposits in EUR	3.29%	0.07%
- Term deposits in EUR	3.57%	1.19%
- Term deposits in NOK	4.22%	-

17. Foreign currency deposits (Continued)

Foreign currency deposits by entity type

	2023	2022
Central banks	76,722,165	44,115,597
Foreign commercial banks	29,592,570	9,505,588
International financial institutions	1,545,184	32,989
Total	107,859,919	53,654,174

Foreign currency deposits by geographic location

	2023	2022
Europe	98,789,539	47,238,461
Asia	7,214,019	4,465,830
North America	1,856,361	1,949,883
Total	107,859,919	53,654,174

18. Foreign securities

The National Bank has investments in foreign debt securities and foreign equity securities. The investments of the National Bank in high quality foreign debt securities are classified as securities at fair value through profit and loss, securities at fair value through other comprehensive income and securities at amortized cost, while the investments in foreign equity securities are classified as securities at fair value through other comprehensive income.

	2023	2022
Bonds	70,715,421	93,562,550
Discounted bills	4,268,088	7,584,127
Certificate of deposits	3,232,607	2,904,054
Commercial bills	3,010,235	11,675,460
Debt securities at fair value through profit and loss	81,226,351	115,726,191
Bonds	41,910,363	42,087,732
Impairment for expected credit losses	(9,457)	(9,862)
Debt securities at amortized cost, net	41,900,906	42,077,870
Bonds	14,888,694	-
Commercial bills	5,373,812	-
Certificate of deposits	1,226,925	-
Discounted bills	606,550	-
Debt securities at fair value through other comprehensive income	22,095,981	-
Foreign equity securities, BIS	40,060	41,208
Foreign equity securities, SWIFT ¹⁷	2,863	2,684
Equity securities at fair value through other comprehensive income	42,923	43,892
Total	145,266,161	157,847,953
Current	105,422,382	118,560,575
Non-current	39,843,779	39,287,378

¹⁷ Society for Worldwide Interbank Financial Telecommunications - SWIFT.

18. Foreign securities (Continued)

The portfolio of the securities at fair value through profit and loss contains high quality debt securities, including bonds, discounted bills, certificates of deposits and commercial bills. The investments in securities at fair value through profit and loss are aligned with the fair value and bear fixed income with interest rate ranging between 0% and 4.85% p.a. (2022: from 0% to 4.25% p.a.). Foreign securities at fair value through profit and loss include accrued interest in amount of MKD 197,283 thousand (2022: MKD 293,820 thousand).

Securities at amortized cost bear fixed income with interest rate ranging between 0% and 4.85% p.a. (2022: from 0% to 4.85% p.a.). Foreign securities at amortized cost include accrued interest in amount of MKD 250,024 thousand (2022: MKD 260,072 thousand).

As at 31 December 2023, the impairment for expected credit losses of securities at amortized cost amounted to MKD 9,457 thousand (2022: MKD 9,862 thousand).

The movement of the impairment for expected credit losses of securities at amortized cost is shown in the table below:

	Note	2023	2022
Balance as at 1 January		9,862	10,577
Increase of impairment for expected credit losses of the securities at amortized cost	15	569	2,805
(Released) impairment for expected credit losses of the securities at amortized cost	15	(975)	(3,497)
Effect of unrealized foreign exchange rate differences		1	(23)
Balance as at 31 December		9,457	9,862

During 2023, the National Bank started managing part of its new investments in debt securities according to the business model whose objective is collecting contractual cash flows at or selling the investments prior to their contractual maturity for liquidity purposes or for gaining profit from the changes in the fair value of the instruments. Unrealized changes in the fair value of those investments are presented in the Statement of other comprehensive income.

The investments in debt securities at fair value through other comprehensive income are aligned with the fair value and bear fixed income with interest rate ranging between 0% and 2.875% p.a. Foreign securities at fair value through other comprehensive income include accrued interest in amount of MKD 69,208 thousand.

Impairment for expected credit loss is calculated for the investments in securities at fair value through other comprehensive income, presented in the Statement for other comprehensive income. As of 31 December 2023, the impairment for expected credit losses of securities at fair value through other comprehensive income amounted to MKD 1,132 thousand (Note 15 and 43).

18. Foreign securities (Continued)

BIS and SWIFT shares represent unquoted equity instruments classified as securities at fair value through other comprehensive income.

As of 31 December 2023 and 2022, the National Bank owns 430 ordinary BIS shares (nominal value of SDR 5,000 per share – paid up at 25% of their nominal value). The fair value of BIS shares cannot be reliably determined and therefore are carried at cost. Thus it is considered that their cost reflects their fair value.

As of 31 December 2023 and 2022, the National Bank owns 6 ordinary SWIFT shares with nominal value of EUR 125 per share, acquired at cost of EUR 5,915 per share. The fair value of SWIFT shares as of 31 December 2023, according to the data published by the company, is EUR 7,760 per share (2022: EUR 7,275 per share).

19. Gold

	2023	2022
Sight gold deposits	19,636,543	13,687,570
Term gold deposits	5,754,053	9,425,612
Gold in the National Bank vault	46,312	42,161
Total	25,436,908	23,155,343
Current	25,436,908	23,155,343

As of 31 December 2023, the National Bank total gold reserves were 221,617.0397 ounces (2022: 221,527.1627 ounces) at a fair value of US Dollar 2,062.40 or MKD 115 thousand per ounce (2022: US Dollar 1,812.35 or MKD 104 thousand per ounce).

Interest rates on term gold deposits in 2023 ranged between 0.17% and 0.52% p.a. for gold deposits based on the price of the gold in US Dollars (2022: between 0.08% and 0.52% p.a.). As of 31 December 2023, term gold deposits include accrued interest in the amount of MKD 622 thousand (2022: MKD 8,342 thousand).

20. Special Drawing Rights

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. As of 31 December 2023, the special drawing rights amounted to MKD 13,249 thousand (2022: MKD 24,679 thousand).

The current account with the IMF bears interest in the amount of the so-called IMF basic rate. In 2023, the basic rate ranged from 2.916% to 4.198% p.a. (2022: from 0.050% to 2.916% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the Cash Flow Statement (Note 44).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2023

(Amounts expressed in thousands of MKD unless otherwise stated)

21. Receivables based on foreign repo transactions

	2023	2022
Reverse repo transaction in foreign currency with received collateral in securities	-	8,902,551
Total	-	8,902,551
Current	-	8,902,551

During 2023 and 2022, the National Bank entered into foreign banks reverse repo transactions with received collateral in securities. As of 31 December 2023, the National Bank has no receivables based on reverse repo transactions with received collateral in securities.

As of 31 December 2022, the receivables based on reverse repo transactions include accrued interest of MKD 6,186 thousand, while the fair value of the received collateral in securities (government bonds with credit rating BBB) equaled MKD 8,823,366 thousand.

22. Receivables from Government related to IMF

	Note	2023	2022
Receivables from Government related to net cumulative allocation, on behalf of and for the account of IMF			
Receivables based on the spending of the general allocation from 2021	39a	10,022,047	10,309,305
Receivable related to general and special net cumulative allocation from 2009	39a	4,265,922	4,388,194
Receivable related to SDR inherited allocation	39a	624,458	642,356
Total		14,912,427	15,339,855
Receivables from Government based on IMF credit lines, on behalf of and for the account of IMF			
Receivable based on the spending of borrowed funds - RFI ¹⁸	39b	7,909,940	10,823,523
Receivable based on the spending of borrowed funds - PLL ¹⁹	39b	6,327,952	6,480,058
Total		14,237,892	17,303,581
Total		29,150,319	32,643,436
Current		20,262,327	18,122,607
Non-current		8,887,992	14,520,829

Counterparty of these balance sheet positions are payables based on SDR allocation and borrowing from IMF, on behalf of and for the account of the Government.

¹⁸ Rapid Financing Instrument - RFI.

¹⁹ Precautionary and Liquidity Line - PLL.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2023

(Amounts expressed in thousands of MKD unless otherwise stated)

23. IMF Membership

According to the IMF's Articles of Agreement, ratified by the Assembly and to 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 the account no. 1 and the account no. 2.

As of 31 December 2023, the quota of the Republic of North Macedonia for membership in the IMF is amounted to MKD 10,502,049 thousand, the account no. 1 amounts to MKD 26,321 thousand and the account no. 2 amounts to MKD 152 thousand (2022: MKD 11,043,104 thousand, MKD 27,677 thousand, and MKD 160 thousand, respectively, for the three positions). The changes are due to the valuation of these positions at the SDR exchange rate as of 30 April 2023, according to the IMF financial year (Note 39c).

24. Loans to banks

In 2023, no auctions of repo transactions have been concluded by the National Bank with the domestic banks. Amid increased liquidity needs of the domestic banks in 2022, the National Bank created liquidity based on concluded auctions of repo transactions with received collateral in Government securities and National Bank bills.

As of 31 December 2023 and 2022, the National Bank has no receivables from approved loans based on concluded auctions of repo transactions with the domestic banks.

25. Other receivables

	2023	2022
Receivables from a bank under bankruptcy	730,039	730,039
Bank's receivables related to overdue auction deposits	4,468	5,268
Total	734,507	735,307
Impairment of receivables	(734,507)	(735,307)
Total	-	-

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2023

(Amounts expressed in thousands of MKD unless otherwise stated)

25. Other receivables (Continued)

During the period from 2010 to 2019, the National Bank collected part of the receivable from the bank under bankruptcy, in amount of MKD 304,530 thousand from which MKD 231,234 thousand were collected based on a decision for advance allocation from the bankruptcy estate of the domestic bank in bankruptcy and from the bankruptcy estate of a debtor of the domestic bank in bankruptcy and MKD 73,296 thousand were collected based on foreclosed assets for uncollected receivables. In 2023 and 2022, there was no collection of those receivables.

Overdue receivable based on overdue auction deposits relate to auction deposits of other domestic bank which was 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 amount of MKD 9,268 thousand. During the period from 2013 to 2023, the National Bank collected part of the receivables in total amount of MKD 4,800 thousand. During 2023, part of the receivables in amount of MKD 800 thousand was collected (Note 15). In 2022, there was no collection of those receivables.

26. Property and equipment

	Land and buildings	Furniture, equipment and vehicles	Works of art	Library fund	Assets under construction	Total assets for business purposes	Property and equipment for recreational purposes	Total
As at 1 January 2022								
Cost	815,435	580,277	64,361	4,970	975,026	2,440,069	34,135	2,474,204
Accumulated depreciation	(499,923)	(499,045)	-	-	-	(998,968)	(22,624)	(1,021,592)
As at 1 January 2022, net carrying amount	315,512	81,232	64,361	4,970	975,026	1,441,101	11,511	1,452,612
Additions								
- Cost	-	12,410	-	257	89,730	102,397	20	102,417
Disposals and write-offs								
- Cost	-	(8,632)	-	(2)	-	(8,634)	-	(8,634)
- Accumulated depreciation	-	8,593	-	-	-	8,593	-	8,593
Transfers								
- Cost	94	-	-	-	(94)	-	-	-
- Accumulated depreciation	-	-	-	-	-	-	-	-
Depreciation for the year	(25,264)	(27,803)	-	-	-	(53,067)	(640)	(53,707)
As at 31 December 2022	290,342	65,800	64,361	5,225	1,064,662	1,490,390	10,891	1,501,281
As at 31 December 2022								
Cost	815,529	584,055	64,361	5,225	1,064,662	2,533,832	34,155	2,567,987
Accumulated depreciation	(525,187)	(518,255)	-	-	-	(1,043,442)	(23,264)	(1,066,706)
Net carrying amount	290,342	65,800	64,361	5,225	1,064,662	1,490,390	10,891	1,501,281

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2023
(Amounts expressed in thousands of MKD unless otherwise stated)
26. Property and equipment (Continued)

	Land and buildings	Furniture, equipment and vehicles	Works of art	Library fund	Assets under construction	Total assets for business purposes	Property and equipment for recreational purposes	Total
As at 1 January 2023								
Cost	815,529	584,055	64,361	5,225	1,064,662	2,533,832	34,155	2,567,987
Accumulated depreciation	(525,187)	(518,255)	-	-	-	(1,043,442)	(23,264)	(1,066,706)
As at 1 January 2023, net carrying amount	290,342	65,800	64,361	5,225	1,064,662	1,490,390	10,891	1,501,281
Additions								
- Cost	5,136	85,672	-	407	1,781	92,996	-	92,996
Disposals and write-offs								
- Cost	(4,554)	(99,286)	-	-	-	(103,840)	(71)	(103,911)
- Accumulated depreciation	4,554	99,285	-	-	-	103,839	71	103,910
Transfers								
- Cost	-	9,132	-	-	(9,416)	(284)	284	-
- Accumulated depreciation	-	284	-	-	-	284	(284)	-
Depreciation for the year	(25,010)	(31,414)	-	-	-	(56,424)	(641)	(57,065)
As at 31 December 2023	270,468	129,473	64,361	5,632	1,057,027	1,526,961	10,250	1,537,211
As at 31 December 2023								
Cost	816,111	579,573	64,361	5,632	1,057,027	2,522,704	34,368	2,557,072
Accumulated depreciation	(545,643)	(450,100)	-	-	-	(995,743)	(24,118)	(1,019,861)
Net carrying amount	270,468	129,473	64,361	5,632	1,057,027	1,526,961	10,250	1,537,211

Property and equipment for recreational 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 overtook the function for supplying cash from the former Payment Operations Bureau (POB), and 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 due to incomplete partition balance with POB, 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 new business premises. The land is not recorded in the books of the National Bank.

As of 31 December 2023, the balance of investments in assets under construction related to the new business premises amounts to MKD 1,055,865 thousand (2022: MKD 1,055,246 thousand). During 2023, the National Bank made investments in assets under construction related to the new business premises in the amount of MKD 619 thousand (2022: MKD 80,314 thousand).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***26. Property and equipment (Continued)**

The construction contract was terminated in July 2022, due to breach of contractual obligations by the contractor, and the National Bank took measures to protect the building under construction. During the last quarter of 2022, pre-bankruptcy proceeding was initiated against the former contractor, while in April 2023 a bankruptcy proceeding was opened. After the termination of the construction contract, the National Bank continued undertaking activities related to the construction of the new building.

In 2023 and 2022, the National Bank has no encumbrances over its property and equipment.

27. Intangible assets

	2023	2022
Balance as at 1 January		
Cost	296,594	281,413
Assets under construction	605	6,242
Accumulated amortization	(268,925)	(255,694)
Net carrying amount	28,274	31,961
Additions during the year		
- Cost	40,070	16,482
Disposals and write-offs during the year		
- Cost	-	(1,301)
- Accumulated amortization	-	1,301
Amortization charge	(21,018)	(14,532)
Assets under construction	(605)	(5,637)
Balance as at 31 December	46,721	28,274
Balance as at 31 December		
Cost	336,664	296,594
Assets under construction	-	605
Accumulated amortization	(289,943)	(268,925)
Net carrying amount	46,721	28,274

28. Coins from precious metals

As at 31 December 2023, coins from precious metals amounted to MKD 6,082 thousand (2022: MKD 5,815 thousand).

Coins from precious metals include jubilee coins, collector coins and sets of 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 2023, the National Bank held at stock 173 gold coins and 24 silver coins (2022: 173 gold coins and 25 silver coins).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***28. Coins from precious metals (Continued)**

According to the Law on the National Bank, since June 2014, the National Bank started selling collector coins, which at the same time represent legal tender. In 2016, the National Bank started selling collector coins through commission. As at 31 December 2023, the National Bank held at a stock 176 pieces of collector coins (2022: 218 pieces).

As at 31 December 2023, the National Bank held at stock 2,752 pieces set of coins (2022: 2,856 pieces set of coins).

29. Operating receivables

The operating receivables contain foreign currency receivables from paid interest, fees and other expenses on behalf of and for the account of the Government based on IMF net cumulative allocation, receivables based on commissions and fees for services provided by the National Bank, receivables for maintenance of premises and other receivables:

	2023	2022
Foreign currency receivables from paid interest, fees and other expenses on behalf of and for the account of the Government (Net Cumulative Allocation)	103,611	70,419
Commissions and fees	46,851	38,041
Receivables for maintenance of premises	2,448	2,643
Other receivables	574,492	564,844
Impairment of other receivables	(574,492)	(564,844)
Total	152,910	111,103

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***29. Operating receivables (Continued)**

The movement of impairment of other receivables is presented below:

	2023	2022
Balance as at 1 January	564,844	407,814
Increase of impairment of interest receivables (Note 15)	6,985	7,420
Increase of impairment of receivables from commissions and fees (Note 15)	1,676	1,418
Increase of impairment of operating receivables (Note 15)	659	442
Increase of bad and doubtful receivables	329	4
Increase of impairment of contract negligence penalty receivables (Note 15)	-	147,733
Effect of unrealized exchange rate differences	(1)	13
Balance as at 31 December	574,492	564,844

30. Other assets

	2023	2022
Prepaid expenses for purchased banknotes and coins	82,898	172,380
Office and other materials	19,679	12,592
Other accrued expenses	5,959	6,671
Advances	5,813	5,816
Other receivables in foreign currency	850	23,615
Assets on other basis	250	129
Foreclosed assets for uncollected receivables	55,848	55,848
Impairment on foreclosed assets for uncollected receivables	(55,848)	(55,848)
Total	115,449	221,203
Current	95,770	208,611
Non-current	19,679	12,592

Prepaid expenses for purchased banknotes and coins refer to the paid liabilities based on concluded contracts for procurement of banknotes and coins.

31. Currency in circulation

The movement of the currency in circulation during the year is shown in the table below:

	2023	2022
Balance as at 1 January	53,852,538	51,392,438
Net increase of currency in circulation during the year	3,356,290	2,460,100
Balance as at 31 December	57,208,828	53,852,538

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA
Notes to the Financial Statements for the year ended 31 December 2023
(Amounts expressed in thousands of MKD unless otherwise stated)
31. Currency in circulation (Continued)

The structure of the nominal value as well as the quantity of the currency in circulation is shown in the table below:

		2023		2022	
	Nominal value	Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
MKD					
Currency in circulation (legal tender)					
Banknotes	100	18,842,319	1,884,232	17,701,456	1,770,146
	200	908,253	181,650	941,142	188,228
	500	9,691,259	4,845,630	10,572,856	5,286,428
	1000	21,506,132	21,506,132	22,696,936	22,696,936
	2000	13,269,452	26,538,904	10,892,251	21,784,502
Total banknotes			54,956,548	51,726,240	
Polymer banknotes	10	33,637,225	336,372	29,567,556	295,676
	50	7,074,414	353,721	6,400,562	320,028
Total polymer Banknotes			690,093	615,704	
Coins	1	127,208,105	127,208	123,522,884	123,523
	2	94,110,466	188,221	87,785,204	175,570
	5	51,582,505	257,912	47,888,934	239,445
	10	40,867,108	408,671	39,161,315	391,613
	50	5,554,893	277,745	5,538,878	276,944
Total coins			1,259,757	1,207,095	
Total currency in circulation (legal tender)			56,906,398	53,549,039	
Currency in circulation - Collector coins					
Coins	10	91,924	919	91,922	919
	100	101,384	10,139	101,344	10,135
	1000	557	557	557	557
	2000	45	90	45	90
Total currency in circulation – Collector coins			11,705	11,701	
Currency in circulation – Not a legal tender					
Coins	0.5	4,347,292	2,174	4,345,792	2,173
Banknotes	10	16,918,792	169,188	16,922,578	169,226
Banknotes	50	2,253,765	112,688	2,253,692	112,684
Banknotes	5000	1,335	6,675	1,543	7,715
Total currency in circulation – Not a legal tender			290,725	291,798	
Total currency in circulation			57,208,828	53,852,538	

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***32. Banks and saving houses deposits**

	2023	2022
Bank overnight deposit facilities in MKD with the National Bank	24,090,000	44,680,000
Bank and saving house seven-day deposit facilities in MKD with the National Bank	37,451,093	4,113,233
Bank deposits and other accounts of financial institutions in MKD held at the National Bank	19,503,128	19,037,564
Bank deposits in foreign currency RTGS – EUR	12,162,790	5,602,864
Bank deposits in foreign currency with maturity up to 1 month	-	738,484
Bank deposits in foreign currency with maturity from 1 to 3 months	-	123,120
Total	93,207,011	74,295,265
Current	93,207,011	74,295,265

Domestic banks, foreign banks' branches and saving houses²⁰ have the right to place deposit facilities with the National Bank. Deposits fall due in one working day (overnight deposits) and seven days, without possibility of early withdrawal, neither in part nor in total amount.

The interest rate on overnight deposit facilities in 2023 ranged from 2.65% to 4.20% p.a. (2022: from 0.15% to 2.65% p.a.), while the interest rate on seven-day deposit facilities in 2023 ranged from 2.70% to 4.25% p.a. (2022: from 0.30% to 2.70% p.a.). Seven-day bank and saving house deposit facilities include accrued interest in the amount of MKD 22,094 thousand (2022: MKD 1,234 thousand).

Deposit liabilities to banks and other accounts of financial institutions in MKD reflect the balances on their accounts held at the National Bank for settling payment transactions. The funds on those accounts are included in the fulfillment of the MKD reserve requirement.

The National Bank does not pay interest on banks' assets placed at the National Bank denominated in MKD through which they fulfill the obligation of reserve requirement and the residue of funds on their accounts, as well as on the accounts of the financial institutions.²¹

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

²⁰ According to the Decision of Deposit Facility, Official Gazette of the Republic of North Macedonia No. 263/22.

²¹ Accounts of Development Bank of North Macedonia JSC Skopje for different projects.

32. Banks and saving houses deposits (Continued)

As of 31 December 2023, banks have not placed deposits in foreign currency in the National Bank²². During the period of January – April 2023, banks have placed deposits in foreign currency with maturity up to 1 month, and with maturity of 1 to 3 months.

The interest rate on term deposits in foreign currency with maturity up to 1 month, during 2023 ranged from 1.20% to 2.52% (2022: from -0.40% to 1.20% p.a.), while the interest rate on term foreign currency deposits with maturity of 1 to 3 months ranged from 1.70% to 2.80% p.a. (2022: from -0.37% to 1.70% p.a.). As of 31 December 2022, the bank deposits in foreign currency with maturity up to 1 month include accrued interest payables in the amount of MKD 566 thousand, while the bank deposits in foreign currency with maturity of 1 to 3 months include accrued interest payables in the amount of MKD 134 thousand.

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

	2023	2022
Banks' reserve requirement in foreign currency	35,217,918	27,125,601
Savings houses' reserve requirement in MKD	24,079	23,366
Total	35,241,997	27,148,967
Current	35,241,997	27,148,967

As specified by the regulations²³, the banks are obliged to fulfill reserve requirement in both MKD and in foreign currency, while the savings houses are obliged to fulfill MKD reserve requirement. The reserve requirement of the savings houses is fulfilled at a fixed level.

²² In May 2023 decision on deactivating the auctions of deposits in foreign currency of the domestic banks was made.

²³ Decision on reserve requirement, Official Gazette of the Republic of North Macedonia No. 16/23, 171/23 and 197/23.

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

During 2023, the National Bank calculated reserve requirement remuneration rate in euros equal to the lower of 0% and ECB's overnight deposit facility interest rate that ranged from 2% to 4% p.a., and remuneration for the allocated funds above the reserve requirement, equal to the lower of 0% and ECB's overnight deposit facility interest rate reduced by 0.15 p.p.²⁴ (2022: the interest rate on reserve requirement in euros was -0.50% p.a., while the interest rate for the amount of allocated funds above the reserve requirement on the foreign currency account in euros in RTGS, ranged from -0.65% to -0.15% p.a.).

As of 31 December 2023 and 2022, banks' reserve requirement in foreign currency does not include receivables based on accrued interest.

34. National Bank bills issued

In 2023, the National Bank applied a tender with limited volume and a fixed interest rate. Despite the domestic banks and foreign bank branches, since November 2022, the saving houses have also been allowed to participate in the National Bank bills' auctions²⁵.

In 2023, the National Bank bill interest rate ranged from 4.75% to 6.30% p.a. (2022: from 1.25% to 4.75% p.a.).

As of 31 December 2023, the accrued interest on National Bank bills amounted to MKD 19,057 thousand (2022: MKD 21,126 thousand).

The cash flow related to the National Bank bills is as follows:

	2023	2022
Balance as at 1 January	9,450,579	9,993,065
National Bank bills, inflows	86,699,296	99,140,328
National Bank bills, outflows	(86,764,000)	(99,879,000)
Discount, inflows	560,222	196,186
Balance as at 31 December	9,946,097	9,450,579

²⁴ According to the Decision on reserve requirement, Official Gazette of the Republic of North Macedonia No. 16/23, 171/23 and 197/23.

²⁵ According to the Decision on National Bank bills, Official Gazette of the Republic of North Macedonia No. 263/22.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***35. Liabilities based on foreign repo transactions**

	2023	2022
Repos in foreign currency with pledged collateral in securities	18,381,963	22,915,335
Repos in foreign currency with pledged collateral in gold	4,102,947	4,440,273
Total	22,484,910	27,355,608
Current	22,484,910	27,355,608

During 2023 and 2022, the National Bank made repo transactions with foreign banks in foreign currency with pledged collateral in foreign securities and gold (Note 2D).

The total market value of the collateral pledged amounts to MKD 22,385,808 thousand, of which the market value of the pledged collateral in gold amounts to MKD 4,017,161 thousand, while the market value of the pledged collateral in foreign securities amounts to MKD 18,407,260 thousand (2022: the market value of the pledged collateral in gold was MKD 4,388,521 thousand, while the market value of the pledged collateral in foreign securities was MKD 22,831,247 thousand).

Liabilities based on foreign repo transactions with pledged collateral in securities as of 31 December 2023 include accrued interest liabilities in the amount of MKD 11,228 thousand (2022: MKD 9,394 thousand), while the liabilities based on foreign repo transactions with pledged collateral in gold as of 31 December 2023 include accrued interest receivables in the amount of MKD 682 thousand (2022: MKD 2,736 thousand).

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.

	2023	2022
Unique treasury account	24,753,036	23,113,816
Other MKD deposits	1,043,885	869,764
Total	25,796,921	23,983,580
Current	25,796,921	23,983,580

The National Bank pays interest on government MKD deposits²⁶.

²⁶ According to the Decision on calculation and payment of interest on government deposits with the National Bank, Official Gazette of the Republic of Macedonia No. 218/16, Official Gazette of the Republic of North Macedonia No. 183/22, government sight deposit interest is paid up to a predetermined amount, which for MKD deposits is MKD 6,000,000 thousand.

36. Government MKD deposits (Continued)

The interest rate on government MKD deposits is set at the level of the banks' monthly weighted interest rate on overnight MKD deposits for non-financial institutions without a currency clause, that ranged from 0.05% to 0.20% p.a. in 2023 (2022: until August 2022, the interest rate was determined at the level of the interest rate on overnight deposit facilities of the National Bank and ranged from 0.15% to 0.40% p.a.; after the amendment to the Decision, from September to December 2022, the interest rate ranged from 0.04% to 0.10% p.a.).

Government deposits include accrued interest in the amount of MKD 672 thousand (2022: MKD 413 thousand).

37. Government foreign currency deposits

As specified by the Law on the National Bank 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 some 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 2023, these deposits are in the amount of MKD 15,518,617 thousand (2022: MKD 16,360,703 thousand).

The National Bank pays interest on government foreign currency deposits²⁷.

The interest rate on government foreign currency deposits is set at the level of the banks' monthly weighted interest rate on foreign currency overnight deposits of non-financial institutions in euros, that ranged from 0.01% to 0.02% p.a. in 2023 (2022: until August 2022, the interest rate was determined at the level of the interest rate on ECB overnight deposit facilities, and if the interest rate is negative (-0.50% for the period from January to July 2022 and 0% until the end of August 2022) no interest is calculated; after the amendment to the Decision, from September to December 2022, the interest rate was 0.01% p.a.).

38. Restricted deposits

Restricted deposits primarily include foreign assets of depositors (Government) pending the completion of remittance 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 2023, the balance of the restricted deposits amounted to MKD 208,273 thousand (2022: MKD 142,111 thousand).

²⁷ According to the Decision on calculation and payment of interest on government deposits with the National Bank, Official Gazette of the Republic of Macedonia No. 218/16, Official Gazette of the Republic of North Macedonia No. 183/22, government sight deposit interest is paid up to a predetermined amount, which for the foreign currency deposits is EUR 100,000 thousand.

39. Payables to IMF

Payables to IMF comprise liabilities on the basis of net cumulative allocation, borrowings from IMF - on behalf of and for the account of the Government and liabilities on the basis of IMF membership and IMF deposits.

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

By a decision of the IMF's Executive Board dated 14 December 1992, our country inherited 5.4% of the liability on the basis of the net SDR allocation from former Yugoslavia in the amount of MKD 624,458 thousand (SDR 8,379 thousand), in accordance with the Law on the Legal Inheritance of the Republic of Macedonia in the International Monetary Fund.

By a decision of the IMF's Executive Board dated 7 August 2009, our country was granted General SDR Allocation in the amount of MKD 3,806,677 thousand (SDR 51,076 thousand). By entering into force of the Fourth Amendment of IMF's Articles of Agreement on 10 August 2009, and based on a decision of the IMF's Executive Board adopted in 1997, the country was granted Special SDR Allocation in the amount of MKD 459,245 thousand (SDR 6,162 thousand).

By a decision of the IMF's Executive Board dated 2 August 2021, our country was granted General SDR Allocation in the amount of MKD 10,022,047 thousand (SDR 134,471 thousand). The approval of the allocation of funds was assigned to IMF member countries which are participants in IMF's SDR Department proportionally to their current Quotas in IMF with a purpose to provide additional liquidity to the global economic system through support of foreign reserves of the IMF member countries.

Total liability of the Republic of North Macedonia for the SDR allocation at the end of 2023 amounted to MKD 14,912,427 thousand, or SDR 200,088 thousand (2022: MKD 15,339,855 thousand or SDR 200,088 thousand).

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 case of canceling the participation in the IMF's SDR Department.

The National Bank pays interest on the total amount of the liability on the basis of the SDR allocation (SDR 200,088 thousand), at the IMF's basic interest rate. The National Bank refunds the interest paid for the liability based on the SDR Allocation from the Budget of the Republic of North Macedonia.

39. Payables to IMF (Continued)**b) Borrowings from IMF - on behalf of and for the account of the Government**

	Note	2023	2022
Borrowings from IMF - on behalf of and for the account of the Government (RFI credit line)	22	7,909,940	10,823,523
Borrowings from IMF - on behalf of and for the account of the Government (PLL credit line)	22	6,327,952	6,480,058
Total		14,237,892	17,303,581
Current		5,349,900	2,782,752
Non-current		8,887,992	14,520,829

In April 2020, the Government borrowed SDR 140,300 thousand (100% of the quota) from the IMF through the Rapid Financing Instrument (RFI) that provides support to the Budget of the Republic of North Macedonia²⁸. The repayment period of the withdrawn amount from the instrument is ranged from three years and three months to five years upon withdrawal. The repayment of the withdrawn amount of the instrument, that will be made in eight equal quarterly installments, began in July 2023. In 2023, two instalments of the Rapid Financing Instrument (RFI) in the amount of SDR 35,075 thousand were repaid²⁹.

In November 2022, the IMF approved SDR 406,870 thousand (290% of the quota) to the Government through the Precautionary and Liquidity Credit Line (PLL) that provides support to the Budget of the Republic of North Macedonia³⁰, from which the Government withdrew SDR 84,180 thousand (60% of the quota)³¹. The repayment period of the withdrawn amount of the credit line is ranged from three years and three months to five years upon withdrawal. The repayment of the withdrawn amount of the line will be made in eight equal quarterly installments. The repayment of the first installment will begin in February 2026.

Total liabilities of the Republic of North Macedonia for the borrowings from IMF at the end of 2023 amounted to MKD 14,237,892 thousand, or SDR 189,405 thousand (2022: MKD 17,303,581 thousand or SDR 224,480 thousand). The interest rate on the withdrawn amounts from the instruments is set according to the IMF rules and in accordance with the financing conditions applicable to the credit lines.

²⁸ According to the Decree with legal force for the Republic of North Macedonia to borrow funds from the IMF for financial support from the Rapid Financing Instrument during a state of emergency, Official Gazette of the Republic of North Macedonia No. 100/20.

²⁹ In January 2024, the Government repaid the third instalment of the Rapid Financing Instrument (RFI) in amount of SDR 17,537.5 thousand.

³⁰ According to the Decree with legal force for the Republic of North Macedonia to borrow funds from the IMF from the Precautionary and Liquidity Line, Official Gazette of the Republic of North Macedonia No. 246/22.

³¹ In January 2024, the Government withdrew SDR 119,260 thousand from the Precautionary and Liquidity Credit Line (PLL).

39. Payables to IMF (Continued)**b) Borrowings from IMF - on behalf of and for the account of the Government (Continued)**

As of 31 December 2023, borrowings from the IMF on behalf of and for the account of the Government include accrued interest in the amount of MKD 121,670 thousand (2022: MKD 93,710 thousand).

c) Payables based on membership and deposits

	2023	2022
Liabilities based on issued promissory notes for membership in the IMF	10,502,049	11,043,104
Liabilities based on the account 1	26,321	27,677
Liabilities based on the account 2	152	160
Total	10,528,522	11,070,941
Current	10,528,522	11,070,941

Resolution 66-2 Fourteenth General Review of Quotas and Reform of the Executive Board, adopted on 15 December 2010 by the Board of Governors of the IMF entered into force in February 2016, which proposed increasing the quotas for each IMF member country. According to the resolution, the quota of our country for IMF membership in 2016 increased from SDR 68,900 thousand to SDR 140,300 thousand. The National Bank, as a fiscal agent of the Republic of North Macedonia, has issued promissory notes for membership in the IMF (Note 23).

40. Other deposits

	2023	2022
Liabilities based on MKD deposits to other domestic entities	3,264,712	2,751,411
Liabilities based on MKD deposits to international financial institutions (IBRD ³² , IDA ³³ and MIGA ³⁴)	6,788	11,102
Total	3,271,500	2,762,513
Current	3,271,500	2,762,513

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

³² International Bank for Reconstruction and Development - IBRD.

³³ International Development Association - IDA.

³⁴ Multilateral Investment Guarantee Agency - MIGA.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA**Notes to the Financial Statements for the year ended 31 December 2023***(Amounts expressed in thousands of MKD unless otherwise stated)***40. Other deposits (Continued)**

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

41. Provisions

	2023	2022
Provisions for potential liabilities based on litigations with individuals and legal entities	373	344
Total	373	344

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

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

	2023	2022
Balance as at 1 January	344	322
Charged provisions for potential liabilities based on litigations (Note 15)	29	22
Balance as at 31 December	373	344

42. Other payables

Payables are analyzed as follows:

	2023	2022
Deposited funds from confiscated foreign currencies and deposited guarantees	277,519	280,666
Liabilities based on BNT bankruptcy	144,895	144,895
Payables for allocation of net income	109,779	-
Accrued interest payables in foreign currency based on concluded arrangements	103,611	70,419
Liabilities to suppliers and other liabilities	78,822	16,354
Payables for long-term employee benefits	35,658	38,784
Jubilee coins counterparty	5,986	5,612
Lease liabilities	4,174	803
Deferred income	3,365	4,126
Tax liabilities	1,616	2,340
Total	765,425	563,999

42. Other payables (Continued)

Liabilities on deposited funds from confiscated foreign currencies and deposited guarantees represent deposited foreign currency holdings of legal entities and individuals that are confiscated by the competent government bodies as a mandatory measure. The competent government bodies pressed charges against those legal entities and individuals, with the competent courts. Depending on the court decision, these foreign currencies are either returned to the original holder or transferred in Denar equivalent to the Budget of the Republic of North Macedonia. The National Bank pays no interest on these funds.

Payables related to 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 BNT 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.

Payables for allocation of net income in 2023 in the amount of MKD 109,779 thousand relate to the 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. The allocation of the net income is approved by the National Bank Council (Note 1). In 2022, the National Bank did not allocate net income to the Budget of the Republic of North Macedonia given the realized net negative distributable earnings (Note 43).

The accrued interest payables in foreign currency based on concluded arrangements relate to the calculated interest based on the IMF net cumulative allocation on behalf of and for the account of the Government.

The liabilities for long-term employee benefits, other than pension insurance contributions, are 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 5.95% on long-term bonds issued by the Government in 2023 with a maturity of 5 and over 5 years (2022: annual weighted interest rate of 3.90% on long-term bonds issued by the Government in 2022 with a maturity of 5 and over 5 years).

43. Capital and reserves*Capital*

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2023, it amounted to MKD 1,289,789 thousand (2022: MKD 1,289,789 thousand).

General and special reserves

As stipulated by the Law on the National Bank, 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 level 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 account³⁵, distributable earnings shall be distributed so that up to 70% shall be transferred to the special reserves account until reaching the amount set by the National Bank Council to cover costs for previously planned purposes, and 70% of the remaining balance shall be allocated to general reserves until reaching the level of capital or 15% after reaching the level of capital.

As at 31 December 2023, MKD 256,151 thousand have been allocated to the general reserves from the realized net positive distributable earnings for 2023.

The general reserves may only be utilized to cover the losses of the National Bank. In order to cover the realized net negative distributable earnings for 2022, MKD 902,067 thousand have been utilized from the general reserves as of 31 December 2022.

	2023	2022
General reserves	688,977	432,826
Special reserves	1,697,826	843,987

³⁵ Defined as special reserve account in the Law on the National Bank of the Republic of North Macedonia. In 2015, the National Bank opened a special reserve account to cover costs for previously planned purposes for building of new business premises.

43. Capital and reserves (Continued)*Other reserves*

	2023	2022
Other reserves from foreign exchange rate differences	-	79,669
Other reserves from price and exchange rate differences of gold	12,096,431	9,817,262
Other reserves from price differences of securities at fair value through profit and loss	1,605,706	32,296
Other reserves from price differences of securities at fair value through other comprehensive income	221,596	-
Other reserves for expected credit loss of securities at fair value through other comprehensive income	1,132	-
Other reserves from price differences of equity securities at fair value through other comprehensive income	681	502
Other reserves from changes in fair value of artworks, library funds and museum items	4,127	4,085
Total	13,929,673	9,933,814

Other reserves represent accumulated net unrealized positive foreign exchange rate and price differences from periodic exchange rate and pricing revaluations of foreign currency assets and liabilities, as well as accumulated reserves for expected credit loss of securities at fair value through other comprehensive income, which serve as a reserve for any future adverse movements in exchange rates and prices, as well for any future credit losses of debt securities at fair value through other comprehensive income.

Other reserves from foreign exchange rate differences from foreign currency assets and liabilities, as at 31 December 2023, equals zero MKD due to coverage of the net unrealized negative foreign exchange rate differences for 2023 in the amount of MKD 79,669 thousand (2022: decreased due to coverage of the net unrealized negative foreign exchange rate differences in the amount of MKD 50,113 thousand). The calculated amount of net unrealized negative foreign exchange rate differences above the level of the previously accumulated other reserve, in the amount of MKD 111,753 thousand, is covered by the current financial result for 2023.

Other reserves from price and exchange rate differences of gold increased in 2023 by MKD 2,279,169 thousand, as a result of the allocation of the net unrealized positive price and foreign exchange rate differences of gold (2022: increase of MKD 1,061,491 thousand as a result of net unrealized positive price and foreign exchange rate differences of gold, and decrease of MKD 2,191,440 thousand as a result of realized exchange rate and price differences from transactions in gold).

Other reserves from price differences of securities at fair value through profit and loss in 2023 increased on a net basis by MKD 1,573,410 thousand of which:

43. Capital and reserves (Continued)*Other reserves (Continued)*

- increase on the basis of allocation of net unrealized positive price differences of securities at fair value through profit and loss in the amount of MKD 1,605,706 thousand on the "security by security" principle (2022: net unrealized positive price differences from securities at fair value through profit and loss in the amount of MKD 32,296 thousand);
- decrease of MKD 32,296 thousand as a result of realized price changes of securities, which were added to the distributable earnings for 2023 (2022: realized price changes of securities in the amount of MKD 5,599 thousand);
- decrease as a result of coverage of the net unrealized negative price changes of securities at fair value through profit and loss is not recorded as at 31 December 2023 (2022: net unrealized negative price changes of securities at fair value through profit and loss in total amount of MKD 11,442 thousand).

Other reserves from price differences of debt securities at fair value through other comprehensive income, in 2023 amounted to MKD 222,728 thousand of which:

- MKD 221,596 thousand arising from net unrealized positive price changes of securities at fair value through other comprehensive income on the "security by security" principle (2022: zero MKD); and
- MKD 1,132 thousand arising from reserve for expected credit loss of securities at fair value through other comprehensive income (2022: zero MKD).

Other reserves from price differences of equity securities at fair value through other comprehensive income in 2023 increased by MKD 179 thousand due to the net unrealized positive price changes in the fair value of the foreign equity securities measured through other comprehensive income (2022: MKD 502 thousand).

Other reserves from art works, library fund and museum items as of 31 December 2023 amounted to MKD 4,127 thousand (2022: MKD 4,085 thousand). The increase in other reserves of MKD 42 thousand in 2023 is due to a donation of books to the National Bank's library fund (2022: an increase of MKD 11 thousand).

44. Cash and cash equivalents

	2023	2022
Foreign currencies (Note 16)	821,607	2,964,247
Foreign currency deposits (Note 17)	107,859,919	53,654,174
Special Drawing Rights (Note 20)	13,249	24,679
Total	108,694,775	56,643,100

45. Contingencies and commitments

a) Litigations

The National Bank currently is a defendant in several legal proceedings arising from its operations. As at 31 December 2023, the litigations were value at MKD 447,070 thousand (2022: MKD 447,070 thousand). The National Bank disputes these allegations in the lawsuits and based on legal advice considers that no significant material liabilities will be incurred.

In 2023, the National Bank allocated provisions in the amount of MKD 29 thousand for potential liability based on litigation for which it expects to pay the liability (2022: allocated provisions in the amount of MKD 22 thousand for litigations) (Note 15 and 41).

For the other litigations, the National Bank has not allocated provisions, since the management, based on the opinion and advices from the legal professionals, believes that the final outcome of these litigations will be resolved in favor of the National Bank and that no material losses with respect to disputes will arise.

b) Commitments

As at 31 December 2023, the National Bank has no significant commitments based on concluded contracts for investments in buildings and equipment (2022: commitments based on concluded contracts in the amount of MKD 59,322 thousand for investments in equipment).

46. Related parties transactions

The National Bank has related party transactions with the Government of the Republic of North Macedonia and with all Council members. The transactions and outstanding balances with the related parties are presented in Notes 5, 6, 13, 22, 23, 36, 37, 38 and 42.

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

Subsequent to the date of preparation of the Statement of the financial position, no materially significant events have occurred that would require corrections of the financial statements, nor events that should be disclosed in the financial statements.