

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 2021**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the National Bank of the Republic of North Macedonia ("the National Bank"), which comprise the statement of financial position as at December 31, 2021, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of the Republic of North Macedonia as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

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

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

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

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

(Continued)

INDEPENDENT AUDITOR'S REPORT

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Aleksandar Arizanov
Certified auditor
Director



February 25, 2022



Aleksandar Arizanov
Certified auditor



Deloitte DDO Skopje
Blvd. Sveti Kliment Ohridski 52/11, 1000 Skopje

GENERAL INFORMATION

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

Anita Angelovska-Bezhoska, Governor

Fadil Bajrami, Vice Governor

Emilija Nacevska, Vice Governor

Ana Mitreska, Vice Governor

Sinisha Naumovski, non-executive member

Gadaf Redjepi, non-executive member

Borche Trenovski, non-executive member (from 1 June 2021)

Nikola Popovski, non-executive member (from 1 June 2021)

Marjan Petreski, non-executive member (from 1 June 2021)

Registered office

Bldv. Kuzman Josifovski Pitu 1

1000, Skopje

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Financial Statements for the year ended 31 December 2021
(Amounts expressed in thousands of MKD unless otherwise stated)

INCOME STATEMENT

	Note	2021	2020
Interest income		97,272	149,887
Interest expense		(200,507)	(327,271)
Effects of negative interest rates		11,368	45,381
Net interest expense	5	(91,867)	(132,003)
Fee income		305,089	272,446
Fee expense		(16,612)	(23,705)
Net fee income	6	288,477	248,741
Net unrealized price and exchange rate differences	7	979,821	1,402,602
Net result from securities at fair value through profit and loss and derivatives	8	(875,490)	123,882
Net realized price and exchange rate differences	9	292,657	586,327
Dividend income	10	16,566	-
Other income	11	37,323	30,332
Personnel expenses	12	(456,498)	(450,211)
Depreciation and amortization charge	27,28	(66,544)	(70,626)
Other expenses	13	(162,156)	(163,505)
Released impairment/ Provisions and Impairment/	14	5,247	(10,316)
Loss/Gain for the year, net		(32,464)	1,565,223

STATEMENT OF COMPREHENSIVE INCOME

	2021	2020
Loss/Gain for the year from the Income statement, net	(32,464)	1,565,223
Other comprehensive income		
- Gains on received books donations - library fund	39	42
Other comprehensive income for the year	39	42
Total comprehensive loss/gain for the year	(32,425)	1,565,265

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Financial Statements for the year ended 31 December 2021
(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	As at 31 December	
		2021	2020
Foreign currencies	15	3,372,659	3,417,438
Foreign currency deposits	16	41,819,630	26,748,038
Foreign securities	17	157,372,715	156,073,465
Derivatives	18	-	-
Gold	19	21,923,813	21,046,389
Special Drawing Rights	20	80,443	38,773
Receivables based on foreign repo transactions	21	2,127,117	-
Receivables from Government related to IMF	22	25,948,414	15,005,439
Government securities	23	-	1,039,318
Receivables from Government		25,948,414	16,044,757
IMF Membership	24	10,234,301	10,908,938
Loans to banks	25	-	-
Other receivables	26	-	-
Receivables from banks		-	-
Property and equipment	27	1,452,612	1,272,678
Intangible assets	28	31,961	28,805
Coins from precious metals	29	5,703	5,436
Operating receivables	30	32,894	35,326
Other assets	31	137,716	215,342
Total assets		264,539,978	235,835,385

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Financial Statements for the year ended 31 December 2021
(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF FINANCIAL POSITION (Continued)

LIABILITIES AND EQUITY	Note	As at 31 December	
		2021	2020
Currency in circulation	32	51,392,438	50,039,944
Bank deposits	33	74,060,754	68,650,295
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	34	19,960,662	17,399,592
National Bank bills issued	35	9,993,065	9,994,589
Liabilities based on foreign repo transactions	36	8,363,671	-
Government MKD deposits	37	24,919,606	23,532,129
Government foreign currency deposits	38	22,067,344	22,465,832
Government deposits		46,986,950	45,997,961
Restricted deposits	39	137,929	140,819
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	40a	15,242,012	4,775,603
Borrowing from IMF - on behalf and for the account of the Government	40b	10,706,402	10,229,836
Payables based on membership and deposits	40c	10,234,301	10,908,938
Payables to IMF	40	36,182,715	25,914,377
Other deposits	41	2,333,764	2,484,250
Provisions	42	322	247
Other liabilities	43	560,931	568,001
Other liabilities		561,253	568,248
Total liabilities		249,973,201	221,190,075
Capital		1,289,789	1,289,789
General reserves		1,334,893	1,326,756
Special reserves		843,987	717,417
Other reserves		11,098,108	11,311,348
Total capital and reserves	44	14,566,777	14,645,310
Total liabilities and equity		264,539,978	235,835,385

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY								
	Note	Capital	General reserves	Special reserves*	Other Reserves**	Art works revaluation and library fund	Accumulated gain/loss	Total capital and reserves
As at 1 January 2020		1,289,789	1,321,000	627,877	9,870,004	3,993	-	13,112,663
Gain for the year		-	-	-	-	-	1,565,223	1,565,223
Gains on received books donations - library fund		-	-	-	-	42	-	42
<i>Total comprehensive gain for 2020</i>		-	-	-	-	42	1,565,223	1,565,265
Net unrealized positive price and exchange rate differences of gold allocated in other reserves	44	-	-	-	2,504,897	-	(2,504,897)	-
Net unrealized negative foreign exchange rate differences covered by other reserves	44	-	-	-	(1,049,592)	-	1,049,592	-
Net unrealized positive price differences of securities allocated in other reserves	44	-	-	-	53,107	-	(53,107)	-
Net unrealized negative price differences of securities covered by other reserves	44	-	-	-	(33,079)	-	33,079	-
Realized price and exchange rate differences of gold	44	-	-	-	(11,588)	-	11,588	-
Realized price differences of securities	44	-	-	-	(26,436)	-	26,436	-
Transfer to general reserves		-	5,756	-	-	-	(5,756)	-
Transfer to the special reserves		-	-	89,540	-	-	(89,540)	-
Transfer to the Budget of the Republic of North Macedonia	43	-	-	-	-	-	(32,618)	(32,618)
As at 31 December 2020		1,289,789	1,326,756	717,417	11,307,313	4,035	-	14,645,310
As at 1 January 2021		1,289,789	1,326,756	717,417	11,307,313	4,035	-	14,645,310
Loss for the year		-	-	-	-	-	(32,464)	(32,464)
Gains on received books donations - library fund		-	-	-	-	39	-	39
<i>Total comprehensive gain for 2021</i>		-	-	-	-	39	(32,464)	(32,425)
Net unrealized positive price and exchange rate differences of gold allocated in other reserves	44	-	-	-	850,039	-	(850,039)	-
Net unrealized positive foreign exchange rate differences allocated in other reserves	44	-	-	-	129,782	-	(129,782)	-
Net unrealized positive price differences of securities allocated in other reserves	44	-	-	-	7	-	(7)	-
Net unrealized negative price differences of securities covered by other reserves	44	-	-	-	(74,897)	-	74,897	-
Realized price and exchange rate differences of gold	44	-	-	-	(1,070,362)	-	1,070,362	-
Realized price differences of securities	44	-	-	-	(47,848)	-	47,848	-
Transfer to general reserves		-	8,137	-	-	-	(8,137)	-
Transfer to the special reserves		-	-	126,570	-	-	(126,570)	-
Transfer to the Budget of the Republic of North Macedonia	43	-	-	-	-	-	(46,108)	(46,108)
As at 31 December 2021		1,289,789	1,334,893	843,987	11,094,034	4,074	-	14,566,777

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

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Financial Statements for the year ended 31 December 2021
(Amounts expressed in thousands of MKD unless otherwise stated)

STATEMENT OF CASH FLOWS			
	Note	2021	2020
Cash flow from operating activities			
Loss/Gain for the year		(32,464)	1,565,223
Adjusted for:			
Interest income	5	(97,272)	(149,887)
Interest expense	5	200,507	327,271
Effects of negative interest rates	5	(11,368)	(45,381)
Net unrealized price and exchange rate differences of gold		(883,240)	(2,509,559)
Net income from securities at fair value through profit and loss		(1,615,420)	(1,122,108)
Dividend income		(16,566)	-
(Released) impairment/Impairment		(5,268)	10,066
Provisions		75	247
Depreciation and amortization charge	27,28	66,544	70,626
Cash flows from operating activities, before changes in operating assets and liabilities		(2,394,472)	(1,853,502)
Gold		4,915	26,715
Foreign securities		202,297	(275,264)
Receivables based on foreign repo transactions		(2,127,896)	-
Receivables from Government related to IMF		(9,204,230)	(10,211,048)
Loans to banks		-	15,912
Other assets		78,862	6,204
Currency in circulation		1,352,494	6,705,825
Bank deposits		5,410,512	3,580,227
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		2,561,961	1,025,724
National Bank bills, inflows		119,867,110	171,786,000
National Bank bills, outflows		(120,000,000)	(186,555,000)
Liabilities based on foreign repo transactions		8,366,448	-
Government deposits, including restricted and other deposits		835,613	8,825,657
Borrowing from IMF - on behalf and for the account of the Government		-	10,211,048
Other liabilities		(20,560)	(8,081)
Payables based on Special Drawing Rights Allocation – on behalf and for the account of Government		10,243,548	-
Interest received		214,511	393,710
Interest paid		(56,983)	(264,121)
Dividends received		16,566	-
Net cash flows from operating activities		15,350,696	3,410,006
Acquisition of property, equipment and intangible assets		(249,595)	(338,444)
Net cash flows used in investing activities		(249,595)	(338,444)
Net income paid to the Budget of the Republic of North Macedonia		(32,618)	(28,328)
Net cash flows used for financing activities		(32,618)	(28,328)
Net increase in cash and cash equivalents		15,068,483	3,043,234
Cash and cash equivalents at the beginning of the year		30,204,249	27,161,015
Cash and cash equivalents at the end of the year	45	45,272,732	30,204,249

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 year end, the National Bank announces and submits to the Assembly of the Republic of North Macedonia and to the Minister of Finance and publishes one or several reports approved by the National Bank Council on the economic situation in the fiscal year ended, as well as on the perspectives in the economy for the following year, with special review on the objectives of the National Bank policies and the condition of the banking system of the Republic of North Macedonia. At the same time, the National Bank submits the annual financial statements approved by the National Bank Council and audited by an independent external auditor to the Minister of Finance, to the Assembly of the Republic of North Macedonia, to the President of the Republic of North Macedonia, and to the President of the Government of the Republic of North Macedonia.

The capital of the National Bank is owned by the Republic of North Macedonia and it can be neither transferred nor be subject to any encumbrance. The net profits or losses of the National Bank are determined in conformity with the International Financial Reporting Standards. The distributable earnings are determined by deducting from the net profits/loss the total amount of unrealized revaluation gains (this amount is completely transferred to the revaluation reserve accounts) and by adding the amount of realized revaluation gains during the current period for which revaluation reserves were recognized in prior periods (this amount is deducted from the revaluation reserve accounts). Unrealized revaluation losses will be 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 subsequently by the capital.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

1. General information (Continued)

The distributable earnings are allocated to the general reserve account and to the Budget of the Republic of North Macedonia as follows: 70% to the general reserve account until reaching the level of the capital determined by the Law on the National Bank, i.e. 15% to general reserves after reaching the level of the capital prescribed in the Law on the National Bank. The residue is regarded as revenue of the Budget of the Republic of North Macedonia.

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

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

The total number of employees as of 31 December 2021 is 426 (as of 31 December 2020: 434).

The financial statements were adopted by the National Bank Council on 25 February 2022 and signed by the chairperson of the National Bank Council on its behalf:


Anita Angelovska Bezhoska,

Chairperson of the National Bank Council


Vesna Filipovska,

Manager

Finance, Accounting and Controlling



NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies

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

A Basis of preparation of Financial Statements

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

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

a) External conditions in the surrounding and measures to mitigate the impact of COVID-19 pandemic

With the announcement of the outbreak of the global pandemic in March 2020 by the World Health Organization due to the appearance and spread of a new viral infection (COVID-19), the Republic of North Macedonia introduced a series of restrictions. Restrictions have included ban on all travels abroad, restrictions on all travels within the country during certain hours of the day, interruption of the public transport, termination all commercial activities except those that can be carried out from home. Excluded from these measures were certain businesses (grocery stores, pharmacies, business banking, gas stations, postal services and similar). This total lockdown took place until the end of July 2020, when there was a gradual easing of the measures, but certain restrictions and work protocols for some business activities were still in place. These business restrictions have adversely affected the social environment in the country. As a result of the global pandemic, the National Bank activates the business continuity plans, while organizing work from home or through a system of rotation for certain operations which required the presence of employees in the bank premises, thus enabling high quality business continuity, without compromising the safety of the people, systems and processes. Since July 2021, the work has been performed with a majority presence of employees in the bank offices.

The National Bank, within the scope of its operations, in anticipation of alleviation of the situation caused by the pandemic, from its very beginning has introduced measures to support the domestic economy by actively managing the monetary policy as well as certain changes and amendments to the regulatory framework in the field of banking system operations. Namely, there was a policy rate cut, reduction in the supply of CB bills that banks can purchase from the central bank, regulatory changes that provide greater flexibility in the area of credit risk management that eased the

2. Summary of significant accounting policies (Continued)
A Basis for preparation of the financial statements (Continued)

a) External conditions in the surrounding and measures to mitigate the impact of COVID-19 pandemic (Continued)

financial burden on borrowers¹, changes in the reserve requirement that allows lower reserve requirement in denars as a support for lending to the most affected sectors in the economy. Providing additional liquidity was especially important, given the shock specifics and the measures taken to deal with it. In the area of operations, the National Bank made changes to the Single Tariff for service fees provided by the National Bank, namely, in the period from March 2020 to the beginning of July 2020, banks and cash distribution centers were released from paying fee for withdrawing and returning cash, services for providing data to individuals from the Data Registry for credit risk exposure of legal entities and individuals (Credit Registry) were free of charge.

In 2021, the National Bank continued to apply the non-standard measure in the reserve requirement, by which claims based on new or restructured loans granted to companies from the sectors most affected by the pandemic is a deductible from the mandatory reserve base. During the year, The National bank monitored the fiscal support packages aimed to ease the effects of the pandemic on the corporate sector, on the basis of which there is continuous harmonization of the sectors supported by the National Bank through the reserve requirement system. The liquidity provision to the banking system on the basis of these measures has a moderate contribution towards maintaining a solid credit growth in 2021.

International financial market developments in 2020 were affected by the high uncertainty of the spread of COVID-19 and the contracting global economic activity, which caused great volatility in the market prices of financial instruments at the beginning of 2020. The risk of complete shutdown of financial markets and growing uncertainty about the consequences of the pandemic contributed to reducing the propensity of investors to take risks, which led to a higher demand for the safest and the most liquid instruments with a simultaneous sharp decline in stock prices.

At the same time, there was an increase in the yields of the government bond issued by the peripheral economies of the Eurozone and bond yields issued by the commercial banks. Outflows of portfolio investments were noticed in emerging economies and also an increase on the cost of capital for these countries. In order to support economic activity in 2020 amid emergency measures to deal with COVID-19, the monetary and fiscal response of the developed countries was fast and bold, significantly faster compared to the 2008 GFC.

¹ In response to the corona crisis, in March and April 2020, The National Bank, took regulatory measures to enable banks, in agreement with the borrowers, to temporarily postpone the repayment of the loans, for an easier dealing with the negative effects of the pandemic. Postponement of the repayment, was implemented twice by the banks (mainly during the second quarter of 2020 and to a lesser extent in September 2020), whereby with the second change of the contractual conditions (in September), were covered only those categories of clients who were most affected by the crisis. The measures expired during 2021, seeing they were of a temporary nature and the reliefs related to them. In the end of 2021, the amount of loans that are still in grace period (or moratorium) is insignificant, and it is under 0,1% of the total loans.

- 2. Summary of significant accounting policies (Continued)
- A Basis for preparation of the financial statements (Continued)

a) External conditions in the surrounding and measures to mitigate the impact of COVID-19 pandemic (Continued)

The ECB, the FED and other central banks have also introduced a number of conventional and unconventional measures, whose primary goal was to stabilize the financial systems, reduce the adverse effects on the economies and to restore the confidence of economies entities. At the end of 2020, the international markets gradually stabilized. The movements in the international financial markets in 2020 were affected by the non-economic shock, caused by the uncertainty about the future developments related to the pandemic and contributed to the increase in the demand for debt securities, who are characterized as the safest and most liquid instruments, affecting the reduction of the yields, deeply into the negative zone. The increase in the prices of instruments issued by countries that are considered safe had the largest contribution to the positive financial performance for the whole 2020.

The central banks of the leading world economies in 2021 maintained the accommodative stance of monetary policies, designed to uphold favorable financial conditions during the pandemic, through measures aimed at stimulating loan activity to the most affected sectors, in order to provide support for fast economic recovery. In the international markets in 2021, there were enhanced expectations of worldwide investors for a solid global economy recovery, amid further support for economies by policy-makers and the progress of the vaccination process against COVID-19, while the periods of investor pessimism were temporary. During the year, with the lifting of the restrictive measures and the gradual recovery of private consumption, the disruption of global supply chains was becoming more pronounced, which combined with labor shortages, border controls, demands for higher wages and flexible working arrangements, lead to a reduced supply of products and services and triggered a cycle of a rising global inflation. Given the growing inflationary pressures, which were further intensified at the end of the year due to the energy crisis² (primarily in Europe), participants of the international financial market increased the expectations for normalization of the monetary policies of the leading central banks. Under such conditions, US government bond yield increased significantly on an annual basis, while the yields of the safest bonds in the euro area grew more moderately (the growth of yields of the bonds containing credit premiums³ was more pronounced), and stock prices reached double digit growth rates, hitting record highs. All these circumstances forced the the leading central banks to signal the start of the cycle of gradual withdrawal of the monetary stimulus and normalization of the monetary conditions on a global level. Thus the FED, reduced its bond purchases, but also decided to do it at

² Which resulted in a strong rise in the price of a natural gas (about 2.5 times annually) and a significant increase in the price of electricity in Europe.

³ Refers to government bonds of peripheral economies of the Eurozone, collateralized securities, corporate securities of banks, etc.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

- 2. Summary of significant accounting policies (Continued)
- A Basis for preparation of the financial statements (Continued)

a) External conditions in the surrounding and measures to mitigate the impact of COVID-19 pandemic (Continued)

an accelerated pace. On the other hand, the ECB in December 2021 announced the discontinuation of the net asset purchases under the PEPP program (which was activated at the beginning of the pandemic) until the end of March 2022 and announced a temporary increase of the net asset purchases under the APP program, which would be maintained for as long as it is needed.

The challenges related to inflationary pressures and the energy crisis at the end of 2021 were also present in the domestic economy, which caused an increased need for foreign currency liquidity by the corporate sector, but also higher net demand by individuals. In such circumstances, maintaining a high level of foreign reserves contributed to a proper National Bank response to the liquidity needs, ensuring stable exchange rate of the Denar against the Euro. At the end of the year, the foreign exchange reserves amounted to 3 billion and 643 million euros, which is by Euro 283 million more than at the end of the 2020.

The current accounts with central banks and to a lesser extent with foreign commercial banks, within the operating portfolio, were maintained at a relatively higher level to meet possible liquidity needs for interventions in the foreign exchange market, but also in anticipation of more favorable investment conditions, given the extremely low and negative yields on the international financial markets. At the same time, safety was still the most important principle when investing the foreign reserves. Government securities and government guaranteed securities as the safest investment, prevailed. The prudent and active approach to manage foreign reserves, which included primarily directing new investments to the safest financial instruments, contributed to a moderate increase in the average share of instruments issued by issuers/countries with the highest credit rating (from AAA to AA-), which consequently have the lowest credit risk exposure and the highest safety. The low and negative yields and the shape of the yield curves in 2021 did not offer adequate compensation for taking interest and credit risk. However, given the negative yields of the debt securities, and in order to preserve the value of foreign reserves, part of the funds were directed to investments with moderately lower credit rating and less negative return, which are still characterized by a high level of safety and liquidity. The constant presence of the largest central banks in the financial markets and the extensive monetary and fiscal programs to support economies contributed to improving the outlook of credit spread instruments, as well as for financial institutions, thus the short term uncollateralized and collateralized placements with the commercial banks were renewed, but to a lesser extent than the 2020 average. The amount of gold was maintained stable at the Bank of England, and depending on the market conditions, was placed in short-term deposits with commercial banks.

In January 2021, the share of US dollars in the foreign reserves decreased in anticipation of the depreciation of the US dollar in 2021 and low tolerance for currency risk due to depletion of revaluation reserves for exchange rate differentials in 2020.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

- 2. Summary of significant accounting policies (Continued)
- A Basis for preparation of the financial statements (Continued)
 - a) *External conditions in the surrounding and measures to mitigate the impact of COVID-19 pandemic* (Continued)

The analysis at the end of the year indicated a possible lower value of the US dollar due to structural deficits in the US fiscal and external account, the revised **FED's** monetary strategy, reduced interest rate advantage of the US financial markets and expectations of faster global economic growth supported by the declining value of the US dollar.

The rising yields in 2021 caused a decrease in the market value of fixed income securities measured through the income statement, which, together with the negative yield to maturity, largely determined the return on foreign reserves portfolios. The active management of the foreign reserves had a favorable effect on performances and contributed to a moderate outperformance of the benchmarks. Mostly, the relatively higher return was due to the choice of instruments, particularly the higher yielding instruments in which the foreign reserves have been invested, compared to the instruments in the benchmarks. The positive financial results from active management of gold, repo and reverse repo transactions also contributed to positive financial results.

At the beginning of the pandemic in 2020, in order to ease the effects of the health crisis on the domestic economy, the National Bank responded by easing the monetary policy through the policy interest rate and the offered amount of CB bills. Namely, after the policy rate cut by 0.25 b.p. in January 2020 (just before the crisis), in March 2020, the interest rate on CB bills was reduced by additional 0.25 b.p., and the new interest rate of 1.75% became valid in April 2020. Also, on May 2020, the National Bank reduced the policy rate by another 0.25 pp to 1.5%, which remained until the end of the year. In the period January-March 2021, the interest rate on CB bills was 1.5%. In March, the interest rate on CB bills was decreased by 0.25 b.p. and as of 31 December 2021, it was 1.25%. The amount of CB bills throughout the 2019, as well as the first quarter of 2020 was around the average, at the level of MKD 25,000.000 thousand. However, in the second quarter of 2020, on two occasions (April and May), the National Bank reduced the amount of CB bills by a total of MKD 15,000.000 thousand, that is, by the end of the 2020 it was at the level of MKD 10,000.000 thousand. The amount of CB bills during the entire 2021, remained unchanged at the level of MKD 10,000.000 thousand, which corresponded to the estimates for the respective liquidity position of the banks. Changes in the underlying monetary instrument, through which a dominant part of the structural excess liquidity is withdrawn from the banking system, at the end of the 2021 contributed to the reduction of monetary expenditures, in the amount of MKD 137,319 thousand, compared to 2020, while in 2020, compared to 2019, they were lower by MKD 309,931 thousand.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies (Continued)
- A Basis for preparation of the financial statements (Continued)

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

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

- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts”** and IFRS 16 **“Leases”** - Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021).

The amendments to the existing standards and interpretation will not lead to any material changes in the **National Bank’s** Financial Statements.

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

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

- IFRS 17 **“Insurance Contracts”** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 “Business Combinations”** - Amendments to Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual reporting periods beginning on or after 1 January 2022),
- **Amendments to IFRS 4 “Insurance Contracts”** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual reporting periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 “Presentation of Financial Statements”** - Classification of Liabilities as Current or Non-Current (effective for annual reporting periods beginning on or after 1 January 2023),
- **Amendments to IAS 16 “Property, Plant and Equipment”** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies (Continued)

A Basis of preparation of financial statements (Continued)

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

- **Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2018 -2020)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date of the amendments is stated).

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies (Continued)

B Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

Assets and liabilities denominated in foreign currency are translated into MKD at the middle exchange rates ruling at the date of the Statement of Financial Position, except for the records of the quota of the Republic of North Macedonia for IMF membership, as well as the account no. 1 and the account no. 2 (notes 24 and 40c). 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 2021	31 December 2020
	MKD	MKD
USD	54.3736	50.2353
EUR	61.6270	61.6940
SDR	76.1765	72.7801

C Offsetting

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

D 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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant 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 recorded with the gain or loss included in the profit and loss account 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 (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 Deposits with banks

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

F Monetary gold

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

Monetary gold is classified as financial assets at fair value through profit and loss statement designated as such at the initial recognition and is measured at fair value. The fair value of the monetary gold is linked with the price of the gold and is calculated on the basis of the morning market price of one 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 as a result of 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.

G Cash and cash equivalents

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

2. Summary of significant accounting policies (Continued)

H Financial assets

Classification and measurement of financial assets

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

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

Analyses of the contractual cash flows characteristics of the financial assets are applied on the level of an individual financial instrument (contractual conditions) in order to **verify whether the contractual cash flows from the assets are used solely for "principal and interest" payment**. Within the contractual cash flows, the "principal" element covers the amount at the initial 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;
- Other business models (trading and gaining profit from the change in the fair value of assets) and
- Business model whose objective is achieved by both collecting contractual cash flows and/or selling financial assets.

Financial assets measured at amortized cost

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

2. Summary of significant accounting policies (Continued)

H Financial assets (Continued)

Classification and measurement of financial assets (Continued)

Financial assets measured at amortized cost (Continued)

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

Loans and receivables arise from activities where the National Bank provides money to a debtor with no intention of trading. Loans are recognized when cash is approved to the debtor and are carried at amortized cost using the principle of effective interest rate. Effective foreign currency, foreign currency deposits, special drawing rights, receivables 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 lost is calculated (Note 2J).

Financial assets at fair value through other comprehensive income

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

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

2. Summary of significant accounting policies (Continued)

H Financial assets (Continued)

Classification and measurement of financial assets (Continued)

Financial assets at fair value through profit and loss

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

Initial recognition

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

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

I Fair value

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

J Impairment and uncollectibility of financial assets

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

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

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

2. Summary of significant accounting policies (Continued)

J Impairment and uncollectibility of financial assets (Continued)

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

Stage 1: expected credit loss - 12 months

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

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

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

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

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

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

Expected credit loss is 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. The COVID-19 pandemic highlighted and increased the risks for many countries and issuers, thus resulting in lower credit rating for some of them. For the financial asset measured at amortized cost, the lower credit rating impacted the expected credit loss by increasing the impairment. Nevertheless, no significant increase in the credit risk was recorded, therefore all the financial assets were classified in stage 1 and the impact on the expected credit loss was insignificant.

2. Summary of significant accounting policies (Continued)

K Trade and settlement date accounting

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

L Non-current assets or disposal groups held for sale

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

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

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

M Property and equipment

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

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

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies (Continued)

M Property and equipment (Continued)

	2021	2020
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, i.e. if necessary, and it will be applied prospectively. Land, art works, numismatic coins, and library fund are not depreciated.

N Intangible assets

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

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

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

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

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

2. Summary of significant accounting policies (Continued)

P Impairment losses of non-financial assets

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

Q Coins from precious metals

Coins from precious metals include jubilee coins and collector coins.

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

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

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

R 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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies (Continued)

S Short-term securities

The short-term securities (National Bank bills) are issued only in domestic currency and are with maturity of 28/35 days. The short-term securities (National Bank bills), issued by the National Bank for monetary policy purposes, are recorded at discounted values, reflecting the consideration paid by banks to acquire them. Interest is accrued over the period to maturity. 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 deposits, bank deposits facilities, reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD, other deposits of banks and savings houses, government deposits, restricted deposits and other deposits.

U Provisions

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

V Borrowings

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

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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies (Continued)

W Recognition of income and expense (Continued)

Fee and other income and expense

Fees and other income are recognized on an accrual basis.

Fees and other expenses are recognized on an accrual basis.

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

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

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.

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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

2. Summary of significant accounting policies (Continued)

Z Taxation

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

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

The National Bank is required to calculate withholding tax for services provided by foreign legal entities as specified by the amendments to the Corporate Income Tax Law from 2014 applicable from 1 January 2015.

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.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management

The statement of financial position of the National Bank is largely comprised of financial instruments. These instruments expose the National Bank to a number of financial risks, including the credit risk, market risk (exchange rate risk 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 securities⁴ and the size of the series issued.

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

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

⁴ Minimum allowed level is set on for the safest instruments.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

A Credit risk (Continued)

The National Bank determines the amount of the expected credit loss on the basis of the estimated probability, as difference between the cash flows arising under the terms of the agreement of the financial instrument and the cash flows that the National Bank expects to receive. The National Bank determines the amount of expected credit loss for financial assets measured at amortized cost.

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

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

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

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

A Credit risk (Continued)

The table below presents the structure of financial assets:

ASSETS	2021	2020
Foreign currency deposits	41,819,630	26,748,038
- Foreign currency sight deposits	41,819,630	21,974,994
- Foreign currency term deposits at foreign banks	-	4,773,044
Foreign securities	157,372,715	156,073,465
Gold deposits	21,883,881	21,008,056
Special Drawing Rights	80,443	38,773
Receivables based on foreign repo transactions	2,127,117	-
Receivables from Government related to IMF	25,948,414	15,005,439
Government securities	-	1,039,318
Operating receivables and other assets	77,004	101,450
As at 31 December	249,309,204	220,014,539

The analysis of the structure of financial instruments of the National Bank indicates that foreign currency sight deposits are significantly increased compared to 2020. Namely, in conditions of extremely low yields on the international financial markets, funds on current accounts in central banks of the country members in euro area were maintained at a relatively higher level with expectation to meet favorable conditions for investing.

The impairment of the exposure of the financial instruments is within Stage 1, with no movements from one stage of exposure to another.

The tables below present an overview of the financial assets that are not past due, but impaired (for financial instrument measured at amortized cost), by rating agency designation as at 31 December 2021 and 31 December 2020, based on the average credit rating of the financial assets obtained from the ratings awarded by the international rating agencies Standard and Poor's, Moody's and/or Fitch.

Financial assets which are individually impaired as at 31 December 2021 and 31 December 2020 are presented in "Foreign currency term deposits at foreign banks" (Note 16), "Foreign securities" (Note 17), "Receivables based on foreign repo transactions" (Note 21), "Other receivables" (Note 26) and "Operating receivables" (Note 30).

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

A Credit risk (Continued)

Credit rating as at 31 December 2021	Foreign currency sight deposits	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	19,770,856	33,273,336	-	-	-	-	-	53,044,192
AA+	7,882,698	37,035,688	-	-	-	-	-	44,918,386
AA	1,231,835	22,216,079	-	-	-	-	-	23,447,914
AA-	623,354	10,931,036	21,866,997	-	-	-	-	33,421,387
A+	4,868,945	11,345,844	-	-	-	-	-	16,214,789
A	12,750	2,966,850	-	-	2,127,117	-	-	5,106,717
A-	8,692	18,901,025	-	-	-	-	-	18,909,717
IFI ⁵	2,799	43,132	16,884	80,443	-	-	-	143,258
BBB	7,417,701	20,330,054	-	-	-	-	-	27,747,755
BBB-	-	329,671	-	-	-	-	-	329,671
BB ⁶	-	-	-	-	-	25,948,414	-	25,948,414
Unrated ⁷	-	-	-	-	-	-	77,004	77,004
Total	41,819,630	157,372,715	21,883,881	80,443	2,127,117	25,948,414	77,004	249,309,204

Credit rating as at 31 December 2020	Foreign currency sight deposits	Foreign currency term deposits at foreign banks	Foreign securities	Gold deposits	Special Drawing Rights	Receivables from the Government	Operating receivables and other assets	Total
AAA	13,381,455	-	40,182,214	-	-	-	-	53,563,669
AA+	3,078,591	-	38,783,577	-	-	-	-	41,862,168
AA	1,236,253	3,265,874	21,683,200	-	-	-	-	26,185,327
AA-	313,721	1,507,170	14,620,154	20,991,848	-	-	-	37,432,893
A+	16,415	-	7,101,051	-	-	-	-	7,117,466
A	10,367	-	6,639,219	-	-	-	-	6,649,586
A-	4,368	-	10,686,844	-	-	-	-	10,691,212
IFI ⁸	1,948	-	39,119	16,208	38,773	-	-	96,048
BBB+	2,670	-	-	-	-	-	-	2,670
BBB	-	-	556,714	-	-	-	-	556,714
BBB-	3,929,206	-	15,781,373	-	-	-	-	19,710,579
BB ⁹	-	-	-	-	-	16,044,757	-	16,044,757
Unrated ¹⁰	-	-	-	-	-	-	101,450	101,450
Total	21,974,994	4,773,044	156,073,465	21,008,056	38,773	16,044,757	101,450	220,014,539

⁵ International Financial Institutions.

⁶ Rating of the Republic of North Macedonia.

⁷ 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“.

⁸ International Financial Institutions.

⁹ Rating of the Republic of North Macedonia.

¹⁰ 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 2021

(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 National Bank's credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2021. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	EU Countries	Non-EU member countries	Republic of North Macedonia	Other OECD countries ¹¹	Other countries	Total
Foreign currency sight deposits	34,392,194	6,750	-	6,806,947	613,739	41,819,630
Foreign securities	127,639,758	1,476,212	-	18,105,674	10,151,071	157,372,715
Gold deposits	-	21,883,881	-	-	-	21,883,881
Special Drawing Rights	-	-	-	80,443	-	80,443
Receivables based on foreign repo transactions	2,127,117	-	-	-	-	2,127,117
Receivables from Government related to IMF	-	-	25,948,414	-	-	25,948,414
Operating receivables and other assets	-	-	77,004	-	-	77,004
31 December 2021	164,159,069	23,366,843	26,025,418	24,993,064	10,764,810	249,309,204
31 December 2020	162,034,830	22,134,641	16,146,207	11,873,881	7,824,980	220,014,539

¹¹ Other OECD countries which are not categorized in EU members or Non-EU member countries.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

B Market risk

The National Bank monitors and manages both currency and interest rate risks as the basic market risk factors. The main objective of the National Bank in managing the market risk is explained in Note 1. Currency risk is a risk arising from a decline of the value of the financial instruments denominated in foreign currency due to the change in the exchange rates. The interest rate risk denotes a risk from reducing the market value of the financial instruments due to the unfavorable movements of interest rates. The market risk management is performed by setting an adjusted duration for the portfolios which is monitored on a daily basis. Additionally, the market risk is also controllable by allocating risk budget which defines an acceptable level of interest rate risk for the foreign reserves.

For the purpose of quantifying the market risks effect on the foreign reserves value, the National Bank applies the Value at Risk (VAR) concept. VAR represents a statistical methodology for assessing the maximum change in the foreign reserves value arising from differences in the financial instruments prices and the foreign exchange rates given a certain level of confidence for a particular time horizon. The National Bank, when calculating VAR, applies a level of confidence of 95% for a one year horizon¹², and 99% for a 10-day horizon¹³.

In December 2021, 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 1,137,050 thousand (Euro 18,450,525), or 0.51% of the foreign reserves. The VAR originating from the change in the foreign exchange rate for the same horizon (on a diversified basis and included change in the price of gold) amounts to MKD 1,109,891 thousand (Euro 18,009,827), while VAR from the change in the prices of instruments in which the foreign reserves are invested totals MKD 27,159 thousands (Euro 440,698).

	31 December 2021	31 December 2020
Currency risk	1,109,891	1,269,008
Interest rate risk	27,159	26,666
Total VAR	1,137,050	1,295,674

¹² For internal assessment of the set budget for risk.

¹³ 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 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

C Foreign exchange risk

Exchange rate risk denotes a risk of financial assets and liabilities value reduction as a result of fluctuations of the foreign exchange rates of the currencies and the monetary gold.

The currency structure of the foreign reserves is determined by the currency structure of the interventions to support the foreign exchange rate of the Denar against the Euro, the currency structure of liabilities of the National Bank and external liabilities of the Government, foreign trade, and other needs for liquidity. Consequently, the Euro dominates the currency structure of the foreign reserves. The exposure to active currency risk (arising from the deviation from the basic currency structure) is limited by the level of revaluation reserves from foreign exchange differences. Having in mind the *de facto* fixed foreign exchange rate of the Denar against the Euro, the exposure to the currency risk of the National Bank to the Euro is minimal, compared to other currencies, where there is exposure as a result of their volatility against the Euro, and thus, to the Denar.

The tables below include the financial assets and liabilities of the National Bank according to their carrying amount as of 31 December 2021 and 31 December 2020, analyzed by currency.

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

C Foreign exchange risk (Continued)

As at 31 December 2021:

ASSETS	EUR	USD	SDR	Other Currencies	MKD	Total
Foreign currencies	2,630,183	716,268	-	26,208	-	3,372,659
Foreign currency deposits	34,994,732	1,930,338	837	4,893,723	-	41,819,630
Foreign securities	157,223,025	108,745	40,945	-	-	157,372,715
Gold	-	21,923,813	-	-	-	21,923,813
Special Drawing Rights	-	-	80,443	-	-	80,443
Receivables based on foreign repo transactions	2,127,117	-	-	-	-	2,127,117
Receivables from Government related to IMF	-	-	25,948,414	-	-	25,948,414
IMF Membership	-	-	10,234,301	-	-	10,234,301
Operating receivables and other assets	412	2	764	11,894	63,932	77,004
Total assets	196,975,469	24,679,166	36,305,704	4,931,825	63,932	262,956,096
LIABILITIES						
Currency in circulation	-	-	-	-	51,392,438	51,392,438
Bank deposits	7,355,762	-	-	-	66,704,992	74,060,754
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	19,940,411	-	-	-	20,251	19,960,662
National Bank Bills issued	-	-	-	-	9,993,065	9,993,065
Liabilities based on foreign repo transactions	3,509,581	-	-	4,854,090	-	8,363,671
Government deposits	22,053,247	9,681	-	4,416	24,919,606	46,986,950
Restricted deposits	68,441	69,488	-	-	-	137,929
Payables to IMF	-	-	36,182,715	-	-	36,182,715
Other deposits	-	-	-	-	2,333,764	2,333,764
Other liabilities	226,289	19,033	1,395	33,457	268,682	548,856
Total liabilities	53,153,731	98,202	36,184,110	4,891,963	155,632,798	249,960,804
Net financial position	143,821,738	24,580,964	121,594	39,862	(155,568,866)	12,995,292

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

C Foreign exchange risk (Continued)

As at 31 December 2020:

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

D Interest rate risk

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

The primary objective of the National Bank is achieving and maintaining price stability, which bestows it a discretionary right to determine the interest rates on the monetary policy instruments in the monetary policy conduct. On the other hand, the National Bank is exposed to interest rate risk 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 2021 and 31 December 2020 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 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

D Interest rate risk (Continued)

As at 31 December 2021:

	Interest-bearing items					Total Interest-bearing items	Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years			
ASSETS								
Foreign currencies	-	-	-	-	-	-	3,372,659	3,372,659
Foreign currency deposits	41,818,805	-	-	-	-	41,818,805	825	41,819,630
Foreign securities	185,231	-	112,400,638	27,520,722	-	140,106,591	17,266,124	157,372,715
Gold	-	5,937,975	5,950,539	-	-	11,888,514	10,035,299	21,923,813
Special drawing rights	80,443	-	-	-	-	80,443	-	80,443
Receivables based on foreign repo transactions	2,127,896	-	-	-	-	2,127,896	(779)	2,127,117
Receivables from Government	-	-	-	-	-	-	25,948,414	25,948,414
IMF Membership	-	-	-	-	-	-	10,234,301	10,234,301
Operating receivables and other assets	-	-	-	-	-	-	77,004	77,004
Total assets	44,212,375	5,937,975	118,351,177	27,520,722	-	196,022,249	66,933,847	262,956,096
LIABILITIES								
Currency in circulation	-	-	-	-	-	-	51,392,438	51,392,438
Bank deposits	43,422,960	-	-	-	-	43,422,960	30,637,794	74,060,754
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	19,940,411	-	-	-	-	19,940,411	20,251	19,960,662
National Bank Bills issued	9,987,520	-	-	-	-	9,987,520	5,545	9,993,065
Liabilities based on foreign repo transactions	2,127,896	6,238,551	-	-	-	8,366,447	(2,776)	8,363,671
Government deposits	6,000,000	-	-	-	-	6,000,000	40,986,950	46,986,950
Restricted deposits	-	-	-	-	-	-	137,929	137,929
Payables to IMF	-	-	-	-	-	-	36,182,715	36,182,715
Other deposits	-	-	-	-	-	-	2,333,764	2,333,764
Other liabilities	-	-	-	-	-	-	548,856	548,856
Total liabilities	81,478,787	6,238,551	-	-	-	87,717,338	162,243,466	249,960,804
Total interest rate risk	(37,266,412)	(300,576)	118,351,177	27,520,722	-	108,304,911	(95,309,619)	12,995,292

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

D Interest rate risk (Continued)

As at 31 December 2020:

	Interest-bearing items					Total Interest-bearing items	Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years			
ASSETS								
Foreign currencies	-	-	-	-	-	-	3,417,438	3,417,438
Foreign currency deposits	24,237,043	2,511,736	-	-	-	26,748,779	(741)	26,748,038
Foreign securities	-	-	92,008,938	19,610,995	8,415,505	120,035,438	36,038,027	156,073,465
Gold	-	-	3,314,003	-	-	3,314,003	17,732,386	21,046,389
Special drawing rights	38,773	-	-	-	-	38,773	-	38,773
Receivables from Government	-	-	-	-	-	-	16,044,757	16,044,757
IMF Membership	-	-	-	-	-	-	10,908,938	10,908,938
Operating receivables and other assets	-	-	-	-	-	-	101,450	101,450
Total assets	24,275,816	2,511,736	95,322,941	19,610,995	8,415,505	150,136,993	84,242,255	234,379,248
LIABILITIES								
Currency in circulation	-	-	-	-	-	-	50,039,944	50,039,944
Bank deposits	49,485,912	-	-	-	-	49,485,912	19,164,383	68,650,295
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	17,378,901	-	-	-	-	17,378,901	20,691	17,399,592
National Bank Bills issued	9,988,350	-	-	-	-	9,988,350	6,239	9,994,589
Government deposits	6,000,000	-	-	-	-	6,000,000	39,997,961	45,997,961
Restricted deposits	-	-	-	-	-	-	140,819	140,819
Payables to IMF	-	-	-	-	-	-	25,914,377	25,914,377
Other deposits	-	-	-	-	-	-	2,484,250	2,484,250
Other liabilities	-	-	-	-	-	-	556,923	556,923
Total liabilities	82,853,163	-	-	-	-	82,853,163	138,325,587	221,178,750
Total interest rate risk	(58,577,347)	2,511,736	95,322,941	19,610,995	8,415,505	67,283,830	(54,083,332)	13,200,498

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

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

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

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

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

E Liquidity risk (Continued)

31 December 2021	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	51,392,438	-	-	-	-	51,392,438
Bank deposits	45,740,439	-	28,320,315	-	-	74,060,754
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	(4,956)	-	19,965,618	-	-	19,960,662
National Bank Bills issued	9,993,065	-	-	-	-	9,993,065
Liabilities based on foreign repo transactions	8,363,671	-	-	-	-	8,363,671
Government deposits	46,986,950	-	-	-	-	46,986,950
Restricted deposits	85,427	6,163	46,339	-	-	137,929
Payables to IMF	25,495,152	-	-	10,687,563	-	36,182,715
Other deposits	2,333,764	-	-	-	-	2,333,764
Other liabilities	460,079	46,108	42,669	-	-	548,856
Total liabilities (contractual maturity dates)	190,846,029	52,271	48,374,941	10,687,563	-	249,960,804
Assets held for managing liquidity risk (expected maturity dates)	211,450,534	2,969,059	10,107,296	38,388,262	40,945	262,956,096

31 December 2020	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 Years	Over 5 years	Total
LIABILITIES						
Currency in circulation	50,039,944	-	-	-	-	50,039,944
Bank deposits	49,893,458	-	18,756,837	-	-	68,650,295
Reserve requirements of banks in foreign currency and reserve requirements of savings houses in MKD	(4,065)	-	17,403,657	-	-	17,399,592
National Bank Bills issued	9,994,589	-	-	-	-	9,994,589
Government deposits	45,997,961	-	-	-	-	45,997,961
Restricted deposits	105,883	-	34,936	-	-	140,819
Payables to IMF	15,703,329	-	-	10,211,048	-	25,914,377
Other deposits	2,484,250	-	-	-	-	2,484,250
Other liabilities	485,794	32,618	38,511	-	-	556,923
Total liabilities (contractual maturity dates)	174,701,143	32,618	36,233,941	10,211,048	-	221,178,750
Assets held for managing liquidity risk (expected maturity dates)	185,891,509	4,320,777	5,674,575	29,929,874	8,562,513	234,379,248

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

F Fair value of financial assets and liabilities

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

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

	Carrying value		Fair value	
	2021	2020	2021	2020
Financial assets				
<i>Carried at amortized cost</i>				
Foreign currencies	3,372,659	3,417,438	3,372,659	3,417,438
Foreign currency deposits	41,819,630	26,748,038	41,819,630	26,748,038
Foreign debt securities	32,047,748	32,877,476	32,542,733	33,829,336
Special Drawing Rights	80,443	38,773	80,443	38,773
Receivables based on foreign repo transactions	2,127,117	-	2,127,117	-
Receivable from Government related to IMF	25,948,414	15,005,439	25,948,414	15,005,439
IMF Membership	10,234,301	10,908,938	10,234,301	10,908,938
Receivables from banks	-	-	-	-
Operating receivables and other assets	77,004	101,450	77,004	101,450
Government securities	-	1,039,318	-	1,039,318
	115,707,316	90,136,870	116,202,301	91,088,730
<i>Securities at fair value through other comprehensive income</i>				
Foreign equity securities	43,132	39,119	43,132	39,119
	43,132	39,119	43,132	39,119

	Carrying value		Fair value	
	2021	2020	2021	2020
Financial liabilities				
<i>Carried at amortized cost</i>				
Currency in circulation	51,392,438	50,039,944	51,392,438	50,039,944
Bank deposits	74,060,754	68,650,295	74,060,754	68,650,295
Reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD	19,960,662	17,399,592	19,960,662	17,399,592
National Bank bills issued	9,993,065	9,994,589	9,993,065	9,994,589
Liabilities based on foreign repo transactions	8,363,671	-	8,363,671	-
Government MKD deposits	24,919,606	23,532,129	24,919,606	23,532,129
Government foreign currency deposits	22,067,344	22,465,832	22,067,344	22,465,832
Payables to IMF	36,182,715	25,914,377	36,182,715	25,914,377
Other and restricted deposits	2,471,693	2,625,069	2,471,693	2,625,069
Other liabilities	548,856	556,923	548,856	556,923
	249,960,804	221,178,750	249,960,804	221,178,750

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(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

F Fair value of financial assets and liabilities (Continued)

Financial assets

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

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

Government securities include bonds issued by our country for specific purposes – compensation for the claims of the National Bank for approved selective loans. These bonds are past due in April 2021. These bonds were not listed, and there were no other instruments with similar characteristics, so the National Bank's management estimates that the fair value of these securities approximates their carrying value.

As explained in Note 17, securities at fair value through other comprehensive income include BIS and SWIFT shares with a value of MKD 43,132 thousand (2020: MKD 39,119 thousand), and are carried at cost which is considered to present their fair value. However, due to the specific role of BIS and SWIFT, fair value of these shares is considered to approximate their carrying value.

Financial liabilities

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

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

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

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 giving additional securities 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.

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

3. Financial risk management (Continued)

F Fair value of financial assets and liabilities (Continued)

Fair value hierarchy

Fair values are determined according to the following hierarchy:

a) Level 1- Quoted Market Price

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

b) Level 2 - Valuation Techniques Using Observable Inputs

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

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

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

Financial assets measured at fair value through profit and loss

31 December 2021	Level 1	Level 2	Level 3	Total
Foreign debt securities	125,281,835	-	-	125,281,835
Gold	21,923,813	-	-	21,923,813
Total financial assets	147,205,648	-	-	147,205,648

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

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

4. Critical accounting estimates and judgments in applying accounting policies

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

Fair value of financial instruments

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

The National Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. In the Republic of 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 a value reduction. In the opinion of the National Bank, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions (Note 3F).

Useful lives of tangible and intangible assets

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

*Actuarial assumptions in respect of **employees'** defined benefit plan*

Any costs for the Bank depend on the occurrence of future events and especially on the discount rate changes and increase of the payments as well. Other factors will also change the overall liability such as the number of employees, leaving service before the retirement and the number of new employees (Notes 2Y and 43).

Impairment of financial assets

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

NATIONAL BANK OF THE REPUBLIC OF NORTH MACEDONIA

Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

5. Net interest expense

Interest income

Interest Income	Government	Domestic banks	Foreign entities	Other entities	Total	Total
					2021	2020
Securities at amortized cost	-	-	84,953	-	84,953	106,510
Gold deposits	-	-	8,748	-	8,748	5,553
Deposits and current accounts in foreign currency	-	-	3,489	-	3,489	32,656
Reverse repos in foreign currency with received collateral in gold	-	-	-	-	-	4,466
Reverse repos in foreign currency with received collateral in securities	-	-	-	-	-	584
Other interest	70	11	-	1	82	118
Total 2021	70	11	97,190	1	97,272	149,887
Total 2020	8,013	84	141,789	1	149,887	

Interest expense

Interest Expenses	Government	Domestic banks	Foreign entities	Other Entities	Total	Total
					2021	2020
National Bank bills	-	131,365	-	-	131,365	268,684
Deposits	9,125	59,980	-	-	69,105	58,467
Interest for long term right-of-use assets	-	-	-	37	37	51
Other interest	-	-	-	-	-	69
Total 2021	9,125	191,345	-	37	200,507	327,271
Total 2020	9,150	318,001	69	51	327,271	

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

5. Net interest expense (Continued)

Effects of negative interest rates

Effects of negative interest rates	Domestic banks	Foreign entities	Total	
			2021	2020
Deposits and current accounts in foreign currency	-	(112,366)	(112,366)	(57,057)
Reserve requirement of banks in foreign currency	106,685	-	106,685	93,405
Repos in foreign currency with pledged collateral in securities	-	113,542	113,542	50,274
Reverse repos in foreign currency with received collateral in securities	-	(103,807)	(103,807)	(45,198)
Repos in foreign currency with pledged collateral in gold	-	5,507	5,507	3,611
Received deposits from banks in foreign currency	1,807	-	1,807	346
Total 2021	108,492	(97,124)	11,368	45,381
Total 2020	93,751	(48,370)	45,381	

6. Net fee income

Fee income

	2021	2020
Fees from domestic banks for maintaining account based on debt turnover on an account	154,648	139,679
Fees for providing cash to banks	69,417	59,978
Fees based on settlement of payments (RTGS)	32,154	30,556
Fees from foreign exchange operations with public sector	22,860	21,349
Other fees	26,010	20,884
Total	305,089	272,446

The amount of the fees that National Bank charges are regulated with the Decision on the single tariff that the National Bank¹⁴ charges for fees for the services rendered, adopted by the National Bank Council, as well as by an individual agreements concluded with certain government bodies.

The revenues based on fees from debt turnover on an account, providing cash to banks and settlement of payments through RTGS¹⁵ relate to services that the National Bank provides to domestic banks and other account holders in RTGS.

¹⁴ In conditions of spread of COVID-19, on 18 March 2020, the National Bank abolished the fee for providing and returning cash as a measure for prevention and protection of the **population's** health with the country. The fees for providing cash were reintroduced in July 2020, taking in consideration that banks gradually began to return to the regular operating mode.

¹⁵ RTGS is Macedonian Interbank Payment System (MIPS), owned by the National Bank.

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

6. Net fee income (Continued)

Fee income (Continued)

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

The increase of other fees in 2021 is due to increased fees based on forced collection, which as a result of measures taken by the Government related to the pandemic in 2020 were introduced but in the second half of 2021 were abolished.

Fee expense

	2021	2020
Fees for Securities Depositories	9,593	10,134
Fees for services received from foreign banks	5,108	11,446
Fees for futures transactions	96	1,695
Other fees	1,815	430
Total	16,612	23,705

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 main part of the fee expenses in 2021, is related to the expenses paid to the custodians and foreign banks for securities maintenance.

The higher amount of the fee expenses in 2020 is mainly due to the fees for services received from foreign banks related to purchase of foreign currencies for payment.

7. Net unrealized price and exchange rate differences

	2021	2020
Unrealized positive exchange rate differences	5,203,260	3,218,115
Unrealized negative exchange rate differences	(5,073,478)	(4,267,707)
Unrealized negative exchange rate differences that affect the financial result	-	(52,703)
Unrealized positive price and exchange rate differences from gold	18,676,672	26,085,177
Unrealized negative price and exchange rate differences from gold	(17,826,633)	(23,580,280)
Total	979,821	1,402,602

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

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

	2021	2020
Realized gains from securities at fair value through profit and loss	2,063	169,309
Realized losses from securities at fair value through profit and loss	(488,751)	(471,388)
Unrealized positive price differences from securities at fair value through profit and loss	7	53,107
Unrealized negative price differences from securities at fair value through profit and loss	(1,615,427)	(1,175,215)
Interest income from securities at fair value through profit and loss	1,223,219	1,539,874
Total net expense/income from securities at fair value through profit and loss	(878,889)	115,687
Realized gains from futures	9,654	26,439
Realized losses from futures	(6,255)	(18,244)
Total net gain from derivatives	3,399	8,195
Total net result from securities at fair value through profit and loss and derivatives	(875,490)	123,882

9. Net realized price and exchange rate differences

	2021	2020
Realized positive exchange rate differences from transactions on foreign market, net	108,866	124,723
Realized positive exchange rate differences from arbitration with foreign banks, net	95,557	418,368
Realized positive exchange rate differences from wire transfers	46,336	26,083
Realized positive price and exchange rate differences from gold, net	33,201	4,662
Realized positive exchange rate and price differences on other basis, net	8,697	12,491
Total	292,657	586,327

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

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10. Dividend income

	2021	2020
Dividend income on investments in BIS	16,566	-
Total	16,566	-

In 2021, the National Bank generated dividend income on investments in BIS. The dividend was received in July 2021 after the announcement of the **BIS's decision on** the 91st annual assembly for payment of the regular dividend and additional dividend as well, as a compensation for a dividend which was not distributed in the previous year. In 2020, the National Bank did not generate dividend income on investments in BIS. Due to the COVID-19 pandemic, the BIS Board of Directors decided not to distribute dividend from the realized profit of the bank for 2019, and to distribute the total amount to its reserves.

11. Other income

	2021	2020
Revenue from automatic securities lending	12,495	9,792
Realized gains from assets sold	1,822	-
Royalty income from collector coins	702	842
Revenue from sale of collector coins and sets of coins	124	311
Income on other basis	22,180	19,387
Total	37,323	30,332

12. Personnel expenses

	2021	2020
Wages and personal income tax	310,163	314,873
Pension cost – defined contribution plans	80,998	82,221
Mandatory contributions	39,638	40,236
Other personnel expenses	25,699	12,881
Total	456,498	450,211

The remuneration of the key management of the National Bank in 2021 was MKD 15,051 thousand (2020: MKD 14,457 thousand), and it is included in "Personnel expenses" above. Personnel expenses are related to short-term employee benefits.

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

13. Other expenses

	2021	2020
Costs for services received	71,845	69,628
Costs of production of banknotes and coins	57,928	67,904
Material expenses	25,876	20,714
Other administrative expenses	4,989	3,830
Collector coins expenses	571	376
Expenses on other basis	947	1,053
Total	162,156	163,505

The costs of banknote and coin manufacturing mainly relate to purchased banknotes and coins, and to the materials for minting coins (coin blanks). Banknotes are printed and coins are minted by domestic or foreign manufacturers, while the coin minting using the purchased coin blanks is made by the National Bank. 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.

14. Released impairment /Provisions and Impairment

	Note	2021	2020
Charged impairment on foreign securities	17	3,085	12,214
(Released) impairment on foreign securities	17	(9,282)	(3,163)
Charged net impairment of receivables from fees and commissions	30	464	922
Charged impairment of interest receivables	30	1	52
Charged impairment on term deposits	16	-	53
(Released) impairment on term deposits	16	(54)	(50)
Charged net impairment of operating receivables	30	464	41
Charged provisions related to lawsuits	42	75	247
Total released impairment/provisions and impairment		(5,247)	10,316

15. Foreign currencies

	2021	2020
Euro	2,630,183	2,729,688
US dollars	716,268	665,525
British pounds	10,454	5,903
Swiss franc	4,466	4,800
Australian dollars	4,257	4,182
Other currencies	7,031	7,340
Total	3,372,659	3,417,438

Foreign currencies include cash in foreign currency. Foreign currencies are included in cash equivalents for the purposes of the Cash Flow Statement (Note 45).

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

16. Foreign currency deposits

	2021	2020
Foreign currency sight deposits	41,819,630	21,974,994
Foreign currency term deposits at foreign banks	-	4,773,044
Included in the cash and cash equivalents (Note 45)	41,819,630	26,748,038
Total	41,819,630	26,748,038

As at 31.12.2021, the National bank does not have placements of foreign assets as term deposits at foreign banks.

As at 31 December 2020 term deposits at foreign banks include accrued interest in the amount of MKD 743 thousand.

As at 31 December 2020, the impairment of term deposits was MKD 53 thousand.

The movement of the impairment of term deposits is shown in the table below:

	Note	2021	2020
Balance as at 1 January		53	49
Increase of impairment on foreign currency term deposits	14	-	53
(Released) impairment on foreign currency term deposits	14	(54)	(50)
Effect of unrealized foreign exchange rate differences		1	1
Balance as at 31 December		-	53

The deposits bear annual interest at rates contingent upon the deposit currency which during 2021 and 2020 had the following values for the respective deposits:

Interest rate type	2021	2020
- Overnight deposits in USD	0.03%	0.29%
- Euro overnight deposits	-0.507%	-0.505%
- Term deposits in USD	0.14%	1.35%
- Term deposits in EUR	-0.54%	-

Foreign currency deposits by entity type

	2021	2020
Central banks	41,168,326	24,906,395
Foreign commercial banks	648,505	1,839,695
International financial institutions	2,799	1,948
Total	41,819,630	26,748,038

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

16. Foreign currency deposits (Continued)

Foreign currency deposits by geographic location

	2021	2020
Europe	34,398,944	20,145,467
North America	1,928,876	4,766,695
Asia	5,491,810	1,835,876
Total	41,819,630	26,748,038

17. Foreign securities

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

	2021	2020
Bonds	108,829,824	96,297,936
Discounted papers	16,452,011	20,552,684
Commercial papers	-	3,706,480
Certificate of deposits	-	2,599,770
Debt securities at fair value through profit and loss	125,281,835	123,156,870
Bonds	32,047,748	32,877,476
Debt securities at amortized cost	32,047,748	32,877,476
Foreign equity securities, unquoted	43,132	39,119
Equity securities at fair value through other comprehensive income	43,132	39,119
Total	157,372,715	156,073,465
Current	129,808,861	128,007,846
Non-current	27,563,854	28,065,619

The portfolio of the securities at fair value through profit and loss contains high quality debt securities. The investments in securities at fair value through profit and loss are aligned with the fair value and bear fixed coupon interest at a rate ranging between 0% and 5.85% p.a. (2020: from 0% to 6% p.a.). Foreign securities at fair value through profit and loss include accrued interest in amount of MKD 555,500 thousand (2020: MKD 635,686 thousand).

Securities at amortized cost bear fixed income with interest rate ranging between 0% and 5.5% p.a. (2020: from 0.2% to 5.5% p.a.). Foreign securities at amortized cost include accrued interest in amount of MKD 215,481 thousand (2020: MKD 255,365 thousand).

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17. Foreign securities (Continued)

As at 31 December 2021, the impairment of securities at amortized cost amounted MKD 10,577 thousand (2020: MKD 16,792 thousand). The movement of the impairment of securities at amortized cost is shown in the table below:

	Note	2021	2020
Balance as at 1 January		16,792	7,714
Increase of impairment of the securities at amortized cost	14	3,085	12,214
(Released) impairment of the securities at amortized cost	14	(9,282)	(3,163)
Effect of unrealized foreign exchange rate differences		(18)	27
Balance as at 31 December		10,577	16,792

The investments in foreign equity securities contain 430 ordinary BIS shares (nominal value of 5,000 SDR per share - paid up at 25% of their nominal value) and 6 ordinary SWIFT shares (nominal value of 125 EUR per share, acquired at cost of 5,915 EUR per share). BIS and SWIFT shares represent unquoted equity instruments whose fair value cannot be reliably determined and therefore are carried at cost. Thus, it is considered that their cost reflects their fair value.

18. Derivatives

During 2021, the National Bank made derivative transactions – bond futures (2020: transactions with derivatives - interest rate futures and bond futures).

As of 31 December 2021, the National Bank has no open futures positions. Gains and losses from changes of the fair value of futures have been recognized in the income statement (Note 8).

19. Gold

	2021	2020
Sight gold deposits	9,994,383	17,692,169
Term gold deposits	11,889,498	3,315,887
Gold in the National Bank vault	39,932	38,333
Total	21,923,813	21,046,389
Current	21,923,813	21,046,389

As of 31 December 2021, the National Bank total gold reserves were 221,520.1677 ounces (2020: 221,521.1497 ounces) at a fair value of US Dollar 1,820.10 (MKD 98,965) per ounce (2020: US Dollar 1,891.10 or MKD 95,000 per ounce).

Interest rates on term gold deposits in 2021 ranged between 0.04% and 0.25% p.a. for gold deposits based on the price of the gold in US Dollars (2020: at an interest rate between 0.01% and 0.11 % p.a.). As of 31 December 2021, term gold deposits include accrued interest in the amount of MKD 984 thousand (2020: MKD 1,885 thousand).

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Notes to the Financial Statements for the year ended 31 December 2021

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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 2021, the special drawing rights amounted MKD 80,443 thousand (2020: MKD 38,773 thousand).

This current account bears interest in the amount of the so-called IMF basic rate. In 2021, the basic rate ranged from 0.050% to 0.115% p.a. (2020: from 0.050% to 0.750% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the Cash Flow Statement (Note 45).

21. Receivables based on foreign repo transactions

	2021	2020
Reverse repo transaction in foreign currency with received collateral in securities	2,127,117	-
Total	2,127,117	-
Current	2,127,117	-

During 2020 and 2021, the National Bank entered into reverse repos transactions with received collateral in securities and gold. As of 31 December 2021, the National Bank has receivables based on reverse repo transactions with received collateral in securities. As of 31 December 2021, the fair value of the received collateral in securities (government bonds with credit rating AA and BBB) is amounted MKD 2,119,667 thousand (2020: zero MKD). Receivables based on reverse repo transactions include accrued interest liabilities in the amount of MKD 780 thousand (31.12.2020: zero MKD).

22. Receivables from Government related to IMF

	2021	2020
Receivable based on the spending of borrowed funds - RFI ¹⁶ (Note 40b)	10,706,402	10,229,836
Receivables based on the spending of the general allocation from 2021 (Note 40a)	10,243,548	-
Receivable related to general and special net cumulative allocation from 2009 (Note 40a)	4,360,204	4,165,801
Receivable related to SDR inherited allocation (Note 40a)	638,260	609,802
Total	25,948,414	15,005,439
Current	25,948,414	15,005,439

Counterparty of these balance sheet positions are payables based on SDR allocation and borrowing from IMF, on behalf and for the account of the Government (notes 40a and 40b).

¹⁶ Rapid Financing Instrument.

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Notes to the Financial Statements for the year ended 31 December 2021

(Amounts expressed in thousands of MKD unless otherwise stated)

23. Government securities

	2021	2020
Securities at amortized cost		
Bond for selective loans	-	1,039,318
Total	-	1,039,318
Current	-	1,039,318

The bond for selective loans which was held to maturity is a security issued on behalf of and for the account of our country, on the basis of the provisions of the 1995 Law on Restructuring and Rehabilitation of a Portion of the Banks in the Republic of Macedonia. The bond for selective loans become fully due in April 2020, but as a result of numerous measures taken by the Government for maintaining of the Budget of the Republic of North Macedonia during a state of emergency, the maturity date of the bond was extended until 1 April 2021¹⁷. The nominal value of the bond was MKD 1,039,318 thousand and it was non-interest bearing. This bond was valued at amortized cost and was amortized to its maturity date i.e. 1 April 2020.

The receivable from the Government related to the bond for compensation of selective loans to the National Bank was collected at 1 April 2021 at the amount of MKD 1,039,318 thousand.

24. 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.

The quota of the Republic of North Macedonia for membership in the IMF is amounted MKD 10,208,567 thousand at the end of 2021, the account no. 1 amounts MKD 25,586 thousand and the account no. 2 amounts to MKD 148 thousand (2020: MKD 10,881,508 thousand, MKD 27,272 thousand, and MKD 158 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 2021, according to the IMF financial year (Note 40c).

¹⁷ According to the Decree with legal force for the enforcement of the Law on Restructuring and Rehabilitation of a Portion of the Banks in the Republic of Macedonia during a state of emergency No. 44-2598/1 of 27 March 2020, Official Gazette of the Republic of North Macedonia No.82 of 27 March 2020.

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25. Loans to banks

	2021	2020
Balance as at 1 January	-	15,912
Collected receivables related to long-term loans of the conversion of the selective credits from 1996	-	(15,912)
Balance as at 31 December	-	-

The receivables based on long-term loans originated from the restructuring of the so-called selective loans of the National Bank used for refinancing of mainly agricultural loans of the banks in the former SFRY¹⁸. Receivables from domestic banks based on loans from primary issue (converted in 1996) in amount of MKD 15,912 thousand become due and were collected on 31 March 2020. The loans bore annual interest rate of 1.5%, payable semiannually.

26. Other receivables

	2021	2020
Receivables from bank under bankruptcy	730,039	730,039
Bank's receivables related to due auction deposits	5,268	5,268
Total	735,307	735,307
Impairment of receivables	(735,307)	(735,307)
Total	-	-

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

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 obtained assets.

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.

¹⁸ Former Yugoslavia – Socialist Federal Republic of Yugoslavia.

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(Amounts expressed in thousands of MKD unless otherwise stated)

26. Other receivables (Continued)

The National Bank fully impaired the receivables from the bank under bankruptcy in amount of MKD 9,268 thousand. In 2013, the National bank collected part of the receivable in the amount of MKD 1,000 thousand, while in 2019, the National Bank collected part of the receivable in the amount of MKD 3,000 thousand.

In 2021 and 2020, there was no collection of part of the receivables, neither foreclosed assets based on uncollected receivables.

27. Property and equipment

	Land and buildings	Furniture, equipment and vehicles	Works of art	Professional literature	Assets under construction	Total assets for business purposes	Property and equipment for entertainment purposes	Total
As at 1 January 2020								
Cost	814,013	572,741	64,252	4,853	503,913	1,959,772	34,164	1,993,936
Accumulated depreciation	(448,867)	(512,536)	-	-	-	(961,403)	(21,375)	(982,778)
As at 1 January 2020, net carrying amount	365,146	60,205	64,252	4,853	503,913	998,369	12,789	1,011,158
Additions								
- Cost	-	11,747	109	51	304,816	316,723	-	316,723
Disposals and write-offs:								
- Cost	-	(21,126)	-	-	-	(21,126)	(15)	(21,141)
- Accumulated depreciation	-	21,124	-	-	-	21,124	15	21,139
Depreciation for the year	(25,860)	(28,700)	-	-	-	(54,560)	(641)	(55,201)
As at 31 December 2020	339,286	43,250	64,361	4,904	808,729	1,260,530	12,148	1,272,678
As at 31 December 2020								
Cost	814,013	563,362	64,361	4,904	808,729	2,255,369	34,149	2,289,518
Accumulated depreciation	(474,727)	(520,112)	-	-	-	(994,839)	(22,001)	(1,016,840)
Net carrying amount	339,286	43,250	64,361	4,904	808,729	1,260,530	12,148	1,272,678

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(Amounts expressed in thousands of MKD unless otherwise stated)

27. Property and equipment (Continued)

	Land and buildings	Furniture, equipment and vehicles	Works of art	Professional literature	Assets under construction	Total assets for business purposes	Property and equipment for entertainment purposes	Total
As at 1 January 2021								
Cost	814,013	563,362	64,361	4,904	808,729	2,255,369	34,149	2,289,518
Accumulated depreciation	(474,727)	(520,112)	-	-	-	(994,839)	(22,001)	(1,016,840)
As at 1 January 2021, net carrying amount	339,286	43,250	64,361	4,904	808,729	1,260,530	12,148	1,272,678
Additions								
- Cost	1,422	63,419	-	66	166,297	231,204	-	231,204
Disposals and write-offs:								
- Cost	-	(43,444)	-	-	-	(43,444)	-	(43,444)
- Accumulated depreciation	-	43,444	-	-	-	43,444	-	43,444
Transfers								
- Cost	-	(3,060)	-	-	-	(3,060)	(14)	(3,074)
- Accumulated depreciation	-	3,001	-	-	-	3,001	14	3,015
Depreciation for the year	(25,196)	(25,378)	-	-	-	(50,574)	(637)	(51,211)
As at 31 December 2021	315,512	81,232	64,361	4,970	975,026	1,441,101	11,511	1,452,612
As at 31 December 2021								
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
Net carrying amount	315,512	81,232	64,361	4,970	975,026	1,441,101	11,511	1,452,612

Property and equipment for entertainment purposes consist of buildings and fixtures and fittings within the buildings.

As a part of the reforms of the payment system, in 2001, the National Bank overtook the function for supplying cash from the former Payment Operations Bureau (POB), and a part of the buildings, equipment and the furniture of the POB related to such function in ten towns throughout the country. These assets were transferred under the National Bank's possession, but the ownership has not been transferred yet, and consequently, the assets have not been recorded in the National Bank books.

In 2013, the Government made a decision to give the National Bank a right of permanent use of land owned by the Republic of North Macedonia with purpose of building new business premises. The land is not recorded in the books of the National Bank. During 2021, the National Bank made investments in assets under construction related to the new business premises in the amount of MKD 166,297 thousand (2020: MKD 304,781 thousand) (Note 46b).

In 2021 and 2020, the National Bank has no pledged property and equipment.

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(Amounts expressed in thousands of MKD unless otherwise stated)

28. Intangible assets

	2021	2020
Balance as at 1 January		
Cost	262,479	244,716
Assets under construction	6,103	5,488
Accumulated amortization	(239,777)	(227,739)
Net carrying amount	28,805	22,465
Additions		
- Cost	18,291	21,150
Disposals and write-offs:		
- Cost	(2,431)	(3,387)
- Accumulated amortization	2,431	3,387
Transfers		
- Cost	3,074	-
- Accumulated depreciation	(3,015)	-
Amortization charge	(15,333)	(15,425)
Assets under construction	139	615
Balance as at 31 December	31,961	28,805
Balance as at 31 December		
Cost	281,413	262,479
Assets under construction	6,242	6,103
Accumulated amortization	(255,694)	(239,777)
Net carrying amount	31,961	28,805

29. Coins from precious metals

Coins from precious metals as at 31 December 2021 amounted to MKD 5,703 thousand (2020: MKD 5,436 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 2021, the National Bank held at stock 173 gold coins and 26 silver coins (31 December 2020: 173 gold coins and 26 silver coins).

According to the Law on the National Bank, as of June 2014, the National Bank started selling collector coins, which at the same time represent legal tender. In 2016, the National Bank started selling collector coins through commission. The National Bank purchases collector coins from suppliers who also arrange their designing, minting, promotion, sale, and distribution. The National Bank purchases a certain quantity of the issue of collector coins for sale and distribution on the territory of the Republic of North Macedonia.

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(Amounts expressed in thousands of MKD unless otherwise stated)

29. Coins from precious metals (Continued)

As at 31 December 2021, the National Bank held at a stock 268 pieces of collector coins (31 December 2020: 306 pieces).

As at 31 December 2021, the National Bank held at a stock 2,931 pieces set of coins (2020: zero pieces).

Revenue from the sale of collector coins and sets of coins is shown in Note 11.

30. Operating receivables

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

	2021	2020
Commissions and fees	31,280	33,282
Receivables for maintenance of premises	1,614	2,044
Other receivables	407,814	406,961
Impairment of other receivables	(407,814)	(406,961)
Total	32,894	35,326

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

	2021	2020
Balance as at 1 January	406,961	405,941
Increase of impairment of operating receivables (Note 14)	464	41
Increase of impairment of receivables from commissions and fees (Note 14)	464	922
Increase of impairment of interest receivables (Note 14)	1	52
Write off/Increase of doubtful receivables	(77)	5
Effect of accrued exchange rate differences	1	-
Balance as at 31 December	407,814	406,961

31. Other assets

	2021	2020
Prepaid expenses for printing banknotes	75,778	133,508
Advances	43,770	65,739
Office and other materials	12,325	11,348
Other accrued expenses	5,503	4,362
Assets on other basis	340	385
Foreclosed assets for uncollected receivables	55,848	55,848
Impairment on foreclosed assets for uncollected receivables	(55,848)	(55,848)
Total	137,716	215,342
Current	125,391	203,994
Non-current	12,325	11,348

The most significant item from the Advances' **balance represent** advances paid regarding the contracts for the new office building.

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32. Currency in circulation

Currency in circulation comprises the following:

MKD	Nominal value	2021		2020	
		Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Currency in circulation (legal tender)					
Banknotes	100	16,519,578	1,651,958	15,466,369	1,546,637
	200	1,333,335	266,667	2,281,641	456,328
	500	11,282,603	5,641,301	12,820,252	6,410,126
	1000	22,596,970	22,596,970	21,850,594	21,850,594
	2000	9,606,016	19,212,032	8,924,758	17,849,516
<i>Total banknotes</i>			<i>49,368,928</i>		<i>48,113,201</i>
Polymer banknotes	10	25,961,988	259,620	24,374,586	243,746
	50	5,850,292	292,515	5,347,367	267,368
<i>Total polymer Banknotes</i>			<i>552,135</i>		<i>511,114</i>
Coins	1	115,542,580	115,542	110,399,232	110,399
	2	83,501,859	167,004	78,202,945	156,406
	5	44,722,791	223,614	42,170,684	210,854
	10	38,060,758	380,608	34,334,824	343,348
	50	5,613,906	280,695	5,798,903	289,945
<i>Total coins</i>			<i>1,167,463</i>		<i>1,110,952</i>
Total currency in circulation (legal tender)			51,088,526		49,735,267
Currency in circulation - Collector coins					
Coins	10	91,912	919	90,902	909
	100	101,304	10,130	96,576	9,658
	1000	557	557	557	557
	2000	45	90	45	90
Total currency in circulation – Collector coins			11,696		11,214
Currency in circulation – Not a legal tender					
Coins	0.5	4,345,792	2,173	4,333,792	2,167
Banknotes	10	16,928,588	169,286	16,938,061	169,381
Banknotes	50	2,254,635	112,732	2,255,406	112,770
Banknotes	5000	1,605	8,025	1,829	9,145
Total currency in circulation – Not a legal tender			292,216		293,463
Total currency in circulation			51,392,438		50,039,944

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33. Bank deposits

	2021	2020
Bank deposits and other accounts of financial institutions in MKD held at the National bank	30,637,968	19,164,505
Bank deposit facilities in MKD with the National Bank	36,067,024	45,296,013
Bank deposit in foreign currency RTGS – EUR	6,739,690	3,758,053
Bank deposit in foreign currency	616,072	431,724
Total	74,060,754	68,650,295
Current	74,060,754	68,650,295

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

The National bank does not pay interest on **banks' assets placed at the National banks** denominated in MKD through which they fulfill the obligation of reserve requirement and the residue of funds on their accounts, as well on the accounts of the financial institutions.¹⁹

Domestic banks and foreign banks' branches have the right to place deposit facilities with the National Bank. The maturities of the deposits are: one working day (overnight deposits) and seven days, without possibility for early withdrawal, neither in part nor in total amount. The interest rate on overnight deposit facilities in 2021 was 0.15% p.a. (2020: 0.15% p.a.), while the interest rate on 7-day deposit facilities in 2021 was 0.3% p.a. (2020: 0.3% p.a.). Seven-day deposits include accrued interest in amount of MKD 24 thousand (2020: MKD 13 thousand).

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

In August 2020, the possibility for domestic banks to place deposits in foreign currency in the National Bank through auctions was reactivated. As of 31 December 2021, banks have placed deposits in foreign currency with one month maturity. The interest rate on placed deposits in foreign currency during 2021 was -0.40% p.a. (2020: -0.40% p.a.). Bank deposits in foreign currency include accrued interest in amount of MKD 198 thousand (2020: MKD 134 thousand).

¹⁹ Accounts of Development Bank of North Macedonia JSC Skopje for different projects.

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

	2021	2020
Banks' foreign exchange reserve requirement	19,935,455	17,374,836
Savings houses' MKD reserve requirement	25,207	24,756
Total	19,960,662	17,399,592
Current	19,960,662	17,399,592

As specified by the regulations, 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.

The National Bank determines the reserve requirement remuneration rate in euros, equal to the ECB's overnight deposit interest rate which was valid on the last day of the fulfillment period.

The interest rate in 2021 was -0.5% p.a. (2020: -0.5% p.a.). For the amount of allocated funds on the foreign currency account in euros in RTGS, which is above 5% than the calculated reserve requirement in euros, the interest rate in 2021 was -0.65% p.a. (2020: -0.65% p.a.).

Banks' reserve requirement in foreign currency also includes receivables based on accrued interest in the amount of MKD 4,956 thousand (2020: MKD 4,065 thousand).

35. National Bank bills issued

In 2021, the National Bank used a tender with limited volume and fixed interest rate. In the period from January to the first decade of March 2021, the National Bank bill interest rate was 1.5%. From the beginning of the second decade of March the National Bank bill interest rate decreased by 0.25 b.p. and as at 31.12.2021 it was 1.25% (2020: the National Bank used a tender with limited volume and fixed interest rate. In January 2020, the National Bank bill interest rate decreased by 0.25 b.p. and was set at 2.00%. Additionally, to support the credit activity in March 2020, the interest rate was cut by another 0.25 b.p. to 1.75% effective from 1 April 2020. In May 2020, the interest rate was reduced by an additional 0.25 b.p. and by the end of 2020, it was 1.5%).

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

As of 31 December 2021, the accrued interest on National Bank bills amounted to MKD 5,545 thousand (2020: MKD 6,239 thousand).

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35. National Bank bills issued (Continued)

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

	2021	2020
Balance as at 1 January	9,994,589	24,745,813
National Bank bills, inflows	119,867,110	171,786,000
National Bank bills, outflows	(120,000,000)	(186,555,000)
Discount, inflows	131,366	17,776
Balance as at 31 December	9,993,065	9,994,589

36. Liabilities based on foreign repo transactions

	2021	2020
Repos in foreign currency with pledged collateral in gold	6,236,602	-
Repos in foreign currency with pledged collateral in securities	2,127,069	-
Total	8,363,671	-
Current	8,363,671	-

During 2020 and 2021, the National Bank made repo transactions in foreign currency with pledged collateral in foreign securities and gold (Note 2D). Total market value of the collateral pledged is MKD 8,457,067 thousand, from which the market value of the pledged collateral in gold is amounted on MKD 6,333,785 thousand, while the market value of the pledged collateral in foreign securities is amounted on MKD 2,123,282 thousand (2020: zero MKD). Liabilities based on foreign repo transactions as of 31 December 2021 include accrued interest in the amount of MKD 2,776 thousand (2020: zero MKD).

37. 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.

	2021	2020
Unique treasury account	23,988,875	22,817,069
Other MKD deposits	930,731	715,060
Total	24,919,606	23,532,129
Current	24,919,606	23,532,129

The National Bank pays interest on government deposits as specified in the Decision for calculation and payment of interest on government deposits with the National

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37. Government MKD deposits (Continued)

Bank²⁰. The interest rate on government MKD deposits equals the interest rate on overnight deposit facilities of the National Bank.

In 2021, the interest rate of these deposits was 0.15% p.a. (2020: 0.15% p.a.). Government deposits include accrued interest in the amount of MKD 775 thousand (2020: MKD 775 thousand).

38. 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 2021, these deposits amounted to MKD 22,067,344 thousand (2020: MKD 22,465,832 thousand).

In accordance with the Decision for calculating and payment of interest on Government deposits, the interest rates on government foreign currency deposits have been tied with the ECB overnight deposit rate. During 2021, the interest rate on overnight deposit facilities with European Central Bank was negative and was set at level of -0.50% (2020: -0.50%), thus according to the Decision no interest was calculated for these deposits.

39. Restricted deposits

Restricted deposits primarily include foreign assets of depositors (Government) pending the completion of wire transfers abroad, and funds of depositors (Government) which represent 100% cover of a letter of credit issued by the National Bank for their account. The National Bank does not pay interest on these deposits. As of 31 December 2021, the balance of the restricted deposits was MKD 137,929 thousand (2020: MKD 140,819 thousand).

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

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40. Payables to IMF

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

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

By a decision of the IMF's Executive Board dated 14 December 1992, our country took over 5.4% of the liability on the basis of the net SDR allocation from former Yugoslavia in the amount of MKD 638,260 thousand (SDR 8,378,694), in accordance with the Law on the Legal Inheritance of the Republic of Macedonia in the International Monetary Fund.

By a decision of the IMF's Executive Board dated 7 August 2009, our country was granted General SDR Allocation in the amount of MKD 3,890,810 thousand (SDR 51,076,245). By entering into force of the Fourth Amendment of IMF's Articles of Agreement on 10 August 2009, and based on a decision of the IMF's Executive Board adopted in 1997, the country was granted Special SDR Allocation in the amount of MKD 469,394 thousand (SDR 6,161,937).

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 10,243,548 thousand (SDR 134,471,240). 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 2021 amounted to MKD 15,242,012 thousand, or SDR 200,088,116 (2020: MKD 4,775,603 thousand or SDR 65,616,876).

According to the IMF's Articles of Agreement, the liability for the SDR allocation falls due only in the case and in the amount of the cancelled SDR allocation, which requires a decision of the Council of IMF Governors, with 85% majority of votes, or in 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 200,088,116), 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.

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(Amounts expressed in thousands of MKD unless otherwise stated)

40. Payables to IMF (Continued)

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

	2021	2020
Borrowing from IMF - on behalf and for the account of the Government (Note 22)	10,706,402	10,229,836
Total	10,706,402	10,229,836
Non-current	10,706,402	10,229,836

In April 2020, the Government borrowed SDR 140,300,000 (100% of the quota) from the IMF through the Rapid Financing Instrument (RFI) that provides support to the Budget of the Republic of North Macedonia²¹. 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 from the instrument will be made in eight equal quarterly installments. Repayment of the first installment will begin in July 2023. The interest rate on the withdrawn amount from the instrument is set according to the IMF rules and in accordance with the financing conditions applicable to the Rapid Financing Instrument.

As of 31 December 2021, borrowing from the IMF on behalf and for the account of the Government includes accrued interest in the amount of MKD 18,839 thousand (2020: MKD 18,788 thousand).

c) Payables based on membership and deposits:

	2021	2020
Liabilities based on issued promissory notes for membership in the IMF	10,208,567	10,881,508
Liabilities based on the account 1	25,585	27,272
Liabilities based on the account 2	148	158
Total	10,234,301	10,908,938
Current	10,234,301	10,908,938

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 68,900,000 to SDR 140,300,000. The National Bank, as a fiscal agent of the Republic of North Macedonia, has issued promissory notes for membership in the IMF (Note 24).

²¹ 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." no. 44-3062/1 of 13 April 2020, "Official Gazette of the Republic of North Macedonia" No. 100 of 13 April 2020.

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41. Other deposits

	2021	2020
Liabilities based on MKD deposits to other domestic entities	2,329,388	2,473,781
Liabilities based on MKD deposits to international financial institutions (IBRD, IDA and MIGA)	4,376	10,469
Total	2,333,764	2,484,250
Current	2,333,764	2,484,250

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

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

42. Provisions

	2021	2020
Provisions for potential liabilities based on litigations with individuals and legal entities	322	247
Total	322	247

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:

	2021	2020
Balance as at 1 January	247	-
Charged provisions for potential liabilities based on litigations (Note 14)	75	247
Balance as at 31 December	322	247

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43. Other payables

Payables are analyzed as follows:

	2021	2020
Deposited funds from confiscated foreign currencies and deposited guarantees	285,235	285,690
Liabilities based on BNT bankruptcy	144,895	144,901
Payables for allocation of net income	46,108	32,618
Payables for long-term employee benefits	42,669	38,511
Liabilities to suppliers and other liabilities	21,731	33,803
Deferred income	6,642	4,214
Tax liabilities	6,501	20,326
Jubilee coins counterparty	5,386	5,229
Lease liabilities	1,764	2,709
Total	560,931	568,001

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 the bank was declared bankrupt in 1995, in the amount of MKD 292,442 thousand. For the purpose of settling liabilities, the National Bank received certain property from the bankruptcy estate of the BNT that was immediately transferred to the Government without any compensation.

Payables for allocation of net income relate to allocation of net income to the Budget of the Republic of North Macedonia, in accordance with the provisions of the Law on the National Bank. Allocation of net income is approved by the National Bank Council (Note 1).

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 2.1635% on long-term bonds issued by our country during 2021 with a maturity of 5 and over 5 years.

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(Amounts expressed in thousands of MKD unless otherwise stated)

44. Capital and reserves

Capital

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2021, it amounted to MKD 1,289,789 thousand (2020: MKD 1,289,789 thousand).

General and special reserves

As stipulated by the Law on the National Bank and following the allocation of unrealized gains to the other reserves²², 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 account²³, 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. The general reserves are utilized to cover the general risks related to the National Bank operations. In 2015, the National Bank opened a special reserve account for building of new business premises.

	2021	2020
General reserves	1,334,893	1,326,756
Special reserves	843,987	717,417

Other reserves

	2021	2020
Other reserves from unrealized price and exchange rate differences		
- Other reserves from foreign exchange rate differences	129,782	-
- Other reserves from price and exchange rate differences of gold	10,947,211	11,167,534
- Other reserves from price differences of securities at fair value through profit and loss	17,041	139,779
Total	11,094,034	11,307,313

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

²² Defined as revaluation reserve accounts in the Law on the National Bank of the Republic of North Macedonia.

²³ Defined as special reserve account in the Law on the National Bank of the Republic of North Macedonia.

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Notes to the Financial Statements for the year ended 31 December 2021

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44. Capital and reserves (Continued)

Other reserves (Continued)

As of 31 December 2021, other reserves from foreign exchange rate differences from foreign exchange assets and liabilities are MKD 129,782 thousand and it is increased due to allocation of the net unrealized positive foreign exchange rate differences in 2021 for the same amount (2020: other reserves from foreign exchange rate differences were zero MKD due to coverage of net unrealized negative foreign exchange rate differences in the amount of MKD 1,049,592 thousand).

Other reserves from price and exchange rate differences of gold for 2021 are decreased by 220,323 MKD thousand from which:

- Increase of MKD 850,039 thousand as a result of the allocation of the net unrealized positive price and foreign exchange rate differences of gold (2020: net unrealized positive price and foreign exchange rate differences of gold in amount of MKD 2,504,897 thousand); and
- Decrease of MKD 1,070,362 thousands as a result of realized exchange rate and price differences from transactions in gold during 2021, which were added to the distributable earnings in 2021 (2020: realized exchange rate and price differences from transactions in gold in total amount of MKD 11,588 thousand).

Other reserves from price differences of securities at fair value through profit and loss for 2021 decreased on a net basis by MKD 122,738 thousand from which:

- Increase on the basis of allocation of net unrealized positive price differences from securities at fair value through profit and loss in amount of MKD 7 **thousand on the "security by security" principle** (2020: net unrealized positive price differences from securities at fair value through profit and loss in the amount of MKD 53,107 thousand);
- Decrease of MKD 47,848 thousand as a result of realized price changes of securities, which were added to the distributable earnings for 2021 (2020: realized price changes of securities in the amount of MKD 26,436 thousand); and
- Decrease of MKD 74,897 thousand as a result of coverage of the net unrealized negative price changes of securities at fair value through profit and loss (2020: net unrealized negative price changes of securities at fair value through profit and loss in total amount of MKD 33,079 thousand).

Other reserves from art works and library fund as of 31 of December 2021 amounted to MKD 4,074 thousand (2020: MKD 4,035 thousand). The increase in other reserves of MKD 39 thousand is due to a donation of **books to the National Bank's library fund** and museum items.

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45. Cash and cash equivalents

	2021	2020
Foreign currencies (Note 15)	3,372,659	3,417,438
Foreign currency deposits (Note 16)	41,819,630	26,748,038
Special Drawing Rights (Note 20)	80,443	38,773
Total	45,272,732	30,204,249

46. Contingencies and commitments

a) Litigations

The National Bank currently is a defendant in several legal proceedings arising from its operations. On 31 December 2021, the litigations were valued at MKD 123,666 thousand (2020: MKD 123,666 thousand). The National Bank contests these receivables and based on legal advice considers that no significant material liabilities will be incurred.

In 2021, the National Bank allocated provisions in the amount of MKD 75 thousand for potential liability based on litigation for which it expects to pay the liability (2020: allocated provisions in the amount of MKD 247 thousand for litigation with legal entity) (Note 14 and 42).

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

b) Commitments

In October 2016, the National Bank concluded a contract for construction works on the new office building. On 31 December 2021, the National bank has commitments at amount of MKD 608,786 thousand (2020: MKD 751,695 thousand), which are expected to be settled in the next year.

47. 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, 12, 22, 23, 37, 38 and 43.

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

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