

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

**Independent Auditor's Report and  
Financial Statements prepared in accordance with  
International Financial Reporting Standards**

**For the year ended 31 December 2016**

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**Grant Thornton**

## Independent Auditors' Report

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### **To the Council of the National Bank of the Republic of Macedonia**

#### **Opinion**

We have audited the accompanying financial statements of National Bank of the Republic of Macedonia (the "National Bank"), which comprise the Statement of financial position as at 31 December 2016, and the Income statement, 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 as at 31 December 2016, 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) together with the ethical requirements that are relevant to our audit of the financial statements of the National Bank in the Republic of Macedonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Strategic Management of the National Bank 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, the Strategic Management is responsible for assessing the National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Strategic Management.
- Conclude on the appropriateness of the 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.

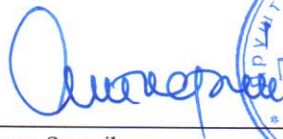
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Skopje,

1 March 2017

Grant Thornton DOO, Skopje



Suzana Stavrik  
Director



Marjan Andonov  
Certified auditor

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## **GENERAL INFORMATION**

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

Dimitar Bogov, Governor  
Maja Kadievska-Vojnovik, Vice Governor  
Fadil Bajrami, Vice Governor  
Anita Angelovska-Bezoska, Vice Governor  
Liman Kurtisi  
Aleksandar Stojkov  
Metodij Hadzi Vaskov  
Mihail Petkovski

### **Registered office**

Bld. Kuzman Josifovski Pitu 1  
1000, Skopje

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***INCOME STATEMENT**

	Note	2016	2015
Interest income	5	278,054	258,028
Interest expense	6	(1,192,438)	(1,109,700)
<b>Net interest expense</b>		<b>(914,384)</b>	<b>(851,672)</b>
Fee income	7	268,900	270,730
Fee expense	8	(31,902)	(34,861)
<b>Net fee income</b>		<b>236,998</b>	<b>235,869</b>
<b>Net unrealized price and exchange rate differences</b>	<b>9</b>	<b>2,293,056</b>	<b>2,474,591</b>
Net income from trading securities and derivatives	10	438,361	322,111
Dividend income	11	7,185	7,503
Other operating income	12	549,667	604,947
Personnel expenses	13	(400,070)	(401,830)
Depreciation and amortization charge	28,29	(69,222)	(73,379)
Other expenses	14	(192,708)	(178,099)
Provisions and write offs	15	(18,434)	204,978
<b>Gain for the year, net</b>		<b>1,930,449</b>	<b>2,345,019</b>

**STATEMENT OF COMPREHENSIVE INCOME**

	2016	2015
<b>Gain for the year from the Income statement, net</b>	<b>1,930,449</b>	<b>2,345,019</b>
Other comprehensive income		
- Items that will be reclassified subsequently to income statement	-	-
- Items that will not be reclassified subsequently to income statement	-	-
<b>Other comprehensive income for the year</b>	-	-
<b>Total comprehensive income for the year</b>	<b>1,930,449</b>	<b>2,345,019</b>

The notes on pages 10 to 69 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>Note</b>	<b>As at 31 December</b>	
		<b>2016</b>	<b>2015</b>
<b>Foreign currencies</b>	<b>16</b>	<b>361,946</b>	<b>385,096</b>
<b>Foreign currency deposits</b>	<b>17</b>	<b>15,876,763</b>	<b>17,190,700</b>
<b>Foreign securities</b>	<b>18</b>	<b>129,238,819</b>	<b>108,378,494</b>
<b>Derivatives</b>	<b>19</b>	<b>-</b>	<b>-</b>
<b>Gold</b>	<b>20</b>	<b>14,960,273</b>	<b>13,111,666</b>
<b>Special Drawing Rights</b>	<b>21</b>	<b>291,521</b>	<b>295,023</b>
Receivables from Government related to IMF	22	5,115,374	5,125,971
Government securities	23	940,221	911,674
<b>Receivables from Government</b>		<b>6,055,595</b>	<b>6,037,645</b>
<b>IMF Membership</b>	<b>24</b>	<b>10,801,936</b>	<b>5,422,197</b>
Loans to banks	25	15,912	15,912
Other receivables	26	-	-
<b>Receivables from banks</b>		<b>15,912</b>	<b>15,912</b>
<b>Non - current assets or disposal groups held for sale</b>	<b>27</b>	<b>108,047</b>	<b>113,431</b>
<b>Property and equipment</b>	<b>28</b>	<b>738,557</b>	<b>767,393</b>
<b>Intangible assets</b>	<b>29</b>	<b>26,231</b>	<b>26,449</b>
<b>Coins from precious metals</b>	<b>30</b>	<b>4,851</b>	<b>116,069</b>
<b>Operating receivables</b>	<b>31</b>	<b>34,747</b>	<b>28,308</b>
<b>Other assets</b>	<b>32</b>	<b>255,097</b>	<b>198,789</b>
<b>Total assets</b>		<b>178,770,295</b>	<b>152,087,172</b>

The notes on pages 10 to 69 are an integral part of these financial statements



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION (continued)**

<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>As at 31 December</b>	
		<b>2016</b>	<b>2015</b>
<b>Currency in circulation</b>	<b>33</b>	<b>34,430,041</b>	<b>31,950,962</b>
<b>Bank deposits</b>	<b>34</b>	<b>35,678,072</b>	<b>25,427,842</b>
<b>Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD</b>	<b>35</b>	<b>14,100,268</b>	<b>13,280,757</b>
<b>National Bank bills issued</b>	<b>36</b>	<b>22,973,701</b>	<b>25,045,631</b>
Government MKD deposits	37	13,955,152	11,344,247
Government foreign currency deposits	38	21,662,311	17,392,904
<b>Government deposits</b>		<b>35,617,463</b>	<b>28,737,151</b>
<b>Restricted deposits</b>	<b>39</b>	<b>562,320</b>	<b>386,317</b>
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	40a	5,115,374	5,125,971
Payables based on used credits from IMF – on behalf and for the account of the Government	40b	-	-
Payables based on membership and deposits	40c	10,801,936	5,422,197
<b>Payables to IMF</b>	<b>40</b>	<b>15,917,310</b>	<b>10,548,168</b>
<b>Other deposits</b>	<b>41</b>	<b>1,152,547</b>	<b>171,064</b>
Other payables	42	237,139	247,942
Provisions	43	-	-
Other liabilities	44	504,325	657,494
<b>Other liabilities</b>		<b>741,464</b>	<b>905,436</b>
<b>Total liabilities</b>		<b>161,173,186</b>	<b>136,453,328</b>
Capital		1,289,789	1,289,789
General reserves		1,309,305	1,298,029
Special reserves		445,956	270,544
Other reserves		14,552,059	12,775,482
<b>Total equity and reserves</b>	<b>45</b>	<b>17,597,109</b>	<b>15,633,844</b>
<b>Total liabilities and equity</b>		<b>178,770,295</b>	<b>152,087,172</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**
**Financial Statements for the year ended 31 December 2016**
*(Amounts expressed in thousands of MKD unless otherwise stated)*

<b>STATEMENT OF CHANGES IN EQUITY</b>		<b>Note</b>	<b>Capital</b>	<b>General reserves</b>	<b>Special reserves*</b>	<b>Other Reserves**</b>	<b>Art works revaluation and library fund</b>	<b>Accumulated gain</b>	<b>Total capital and reserves</b>
<b>As at 1 January 2015</b>			<b>1,289,789</b>	<b>1,247,079</b>	<b>-</b>	<b>10,815,177</b>	<b>1,777</b>	<b>-</b>	<b>13,353,822</b>
Gain for the year			-	-	-	-	-	2,345,019	2,345,019
<b>Total comprehensive income for 2015</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,345,019</b>	<b>2,345,019</b>
Net unrealized negative price and exchange rate differences of gold		45	-	-	-	(387,693)	-	387,693	-
Net unrealized positive foreign exchange differences		45	-	-	-	2,862,284	-	(2,862,284)	-
Net unrealized positive price differences of securities		45	-	-	-	30,253	-	(30,253)	-
Net unrealized negative price differences of securities covered by other reserves			-	-	-	(2,579)	-	2,579	-
Realized price and exchange rate differences of gold		45	-	-	-	(506,800)	-	506,800	-
Realized price differences of securities		45	-	-	-	(36,937)	-	36,937	-
Transfer to general reserves			-	50,950	-	-	-	(50,950)	-
Transfer to special reserves			-	-	270,544	-	-	(270,544)	-
Transfer to the Budget of the Republic of Macedonia			-	-	-	-	-	(64,997)	(64,997)
<b>As at 31 December 2015</b>			<b>1,289,789</b>	<b>1,298,029</b>	<b>270,544</b>	<b>12,773,705</b>	<b>1,777</b>	<b>-</b>	<b>15,633,844</b>
Gain for the year			-	-	-	-	-	1,930,449	1,930,449
<b>Total comprehensive income for 2016</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,930,449</b>	<b>1,930,449</b>
Net unrealized positive price and exchange rate differences of gold		45	-	-	-	1,615,498	-	(1,615,498)	-
Net unrealized positive price differences from jubilee gold coins		45	-	-	-	95,422	-	-	95,422
Net unrealized positive foreign exchange differences		45	-	-	-	677,558	-	(677,558)	-
Net unrealized positive price differences of securities and derivatives		45	-	-	-	67,250	-	(67,250)	-
Realized price and exchange rate differences of gold		45	-	-	-	(672,432)	-	672,432	-
Realized price differences of securities		45	-	-	-	(8,013)	-	8,013	-
Transfer to general reserves			-	11,276	-	-	-	(11,276)	-
Transfer to the special reserves			-	-	175,412	-	-	(175,412)	-
Transfer to the Budget of the Republic of Macedonia			-	-	-	-	-	(63,900)	(63,900)
Revalorization of library fund (received donations – books)			-	-	-	-	1,294	-	1,294
<b>As at 31 December 2016</b>			<b>1,289,789</b>	<b>1,309,305</b>	<b>445,956</b>	<b>14,548,988</b>	<b>3,071</b>	<b>-</b>	<b>17,597,109</b>

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

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)*

<b>STATEMENT OF CASH FLOWS</b>			
	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flow from operating activities</b>			
<b>Gain for the year</b>		<b>1,930,449</b>	<b>2,345,019</b>
Adjusted for:			
Interest income	5	(278,054)	(258,028)
Interest expense	6	1,192,438	1,109,700
Net unrealized price and exchange rate differences of gold		(1,687,875)	170,395
Net income from trading securities and derivatives		(574,703)	(1,137,848)
Dividends		(7,185)	(7,503)
Revenues from melted gold items		(46,079)	-
Impairment of non-financial assets, net (Release) /Charge of provisions		18,434	(204,263)
Depreciation and amortization charge	28,29	69,222	73,379
<b>Cash flows used from operating gain, before changes in operating assets and liabilities</b>		<b>616,647</b>	<b>2,090,136</b>
Term deposits over 90 days		2,158,085	6,694,305
Gold		(7,592)	(17,885)
Foreign securities		(20,285,622)	12,303,129
Receivables from Government		-	9,038,119
Other assets		(77,409)	136,914
Currency in circulation		2,479,079	3,869,693
Bank deposits		10,249,276	(5,440,001)
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		819,511	677,271
Government deposits, including restricted and other deposits		8,036,527	(11,324,096)
Provisions for court cases		-	(1,015)
Borrowing from IMF - on behalf and for the account of Government		-	(9,038,119)
Other liabilities		(46,383)	16,468
Interest received		247,450	238,324
Interest paid		(1,187,143)	(1,127,356)
Dividends received		7,185	7,503
<b>Net cash flows from operating activities</b>		<b>3,009,611</b>	<b>8,123,390</b>
Acquisition of property, equipment and intangible assets		(51,849)	(138,503)
<b>Net cash flows used in investing activities</b>		<b>(51,849)</b>	<b>(138,503)</b>
National Bank bills, inflows		273,241,000	303,477,110
National Bank bills, outflows		(275,316,000)	(303,885,000)
Net income paid to the Budget of the Republic of Macedonia		(64,997)	(53,220)
<b>Net cash flows used in financing activities</b>		<b>(2,139,997)</b>	<b>(461,110)</b>
Net increase in cash and cash equivalents		817,765	7,523,777
<b>Cash and cash equivalents at the beginning of the year</b>		<b>14,482,755</b>	<b>6,958,978</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>46</b>	<b>15,300,520</b>	<b>14,482,755</b>

The notes on pages 10 to 69 are an integral part of these financial statements

**1. General information**

The National Bank of the Republic of Macedonia (hereinafter referred to as: the National Bank) is the central bank of the Republic of Macedonia and the sole issuing institution in the country. The National Bank, as a central bank of issue, was constituted in 1992. The organization and the operations of the National Bank are regulated by the Law on the National Bank of the Republic of Macedonia, published in the Official Gazette of the Republic of Macedonia No. 158/10, dated 9 December 2010, No. 123/12 dated 2 October 2012, No. 43/14 dated 4 March 2014, No. 153/15 dated 4 September 2015 and No. 6/16 dated 15 January 2016. 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 maintenance of stable and competitive market-oriented financial system. Third objective of the National Bank is to support the general economic policy, without jeopardizing the accomplishment of its main objective, though adhering to the principle of open market economy with free competitiveness.

The National Bank informs the Assembly of the Republic of Macedonia and the public on the monetary policy at least twice a year. Within four months after the year end, the National Bank submits to the Assembly of the Republic of 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 Macedonia. The National Bank submits the annual financial statements approved by the National Bank Council and audited by an independent external auditor to the Minister of Finance, to the Assembly of the Republic of Macedonia, to the President of the Republic of Macedonia, and to the Prime Minister of the Republic of Macedonia.

The capital of the National Bank is owned by the Republic of Macedonia and it can be neither transferred nor be subject to any encumbrance. The net profits or losses of the National Bank are determined in conformity with the International Financial Reporting Standards. The distributable earnings are determined by deducting from the net profits the total amount of unrealized revaluation gains (this amount is completely transferred to the revaluation reserve accounts) and by adding the amount of realized revaluation gains during the current period for which special reserves were recognized in prior periods (this amount is deducted from the revaluation reserve accounts). Unrealized revaluation losses will be transferred to the respective revaluation reserve accounts until such time as these revaluation reserve accounts have a zero balance, after which these losses shall be covered by the current year's profit, then by the general reserve account and subsequently by the capital.

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

#### **1. General information (Continued)**

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

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

The total number of employees as of 31 December 2016 is 437 (as of 31 December 2015: 437).

The financial statements were adopted by the National Bank of the Republic of Macedonia Council on 27 February 2017 and signed by the chairperson of the National Bank Council on its behalf:



  
Dimitar Bogov,

Chairperson of the National Bank Council

  
Vesna Filipovska,

Manager  
Finance, Accounting and Controlling

**2. Summary of significant accounting policies**

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

**A Basis of preparation of financial statements**

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

The financial statements are prepared under the historical cost convention, as a measurement base, except for certain assets which are measured at fair value.

**a) Adoption of new or revised standards and interpretations**

The National Bank have neither implemented any new standards nor made changes in 2016 that would have significant material impact on the National Bank's financial statements.

**b) New accounting standards, amendments and interpretations of the existing standards which are not yet effective and have not been adopted early by the National Bank**

As at the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB, but are not yet effective and have not been adopted early by the National Bank. The National Bank expects that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the National Bank's financial statements is provided below.

**IFRS 9 "Financial Instruments" (IFRS 9)** replaces IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The National Bank has begun to assess the impact of IFRS 9. At this stage, the main areas of expected impact are:

- the National Bank's classification and measurement of financial assets need to be revised based on new criteria that take into account the contractual cash flows of assets and the business-model in which they are managed,

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

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

***b) New accounting standards, amendments and interpretations of the existing standards which are not yet effective and have not been adopted early by the National Bank (continued)***

- impairment based on expected credit losses should be recognized for the National Bank's receivables and investments in long-term assets that are currently classified as available for sale and held to maturity, unless classified at fair value through income statement in accordance with the new criteria,
- it will no longer be possible to measure the equity instruments at cost less impairment and all such instruments will be measured at fair value. Changes in fair value will be presented in the income statement, unless the National Bank irrevocably determines to present them in other comprehensive income. This will have an impact on these instruments if they exist on 1 January 2018.

The new standard becomes effective for annual periods beginning on or after 1 January 2018.

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

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



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

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

*Transactions and balances*

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

All exchange rate differences are recognized in the income statement.

<b>Middle exchange rate:</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>MKD</b>	<b>MKD</b>
USD	58.3258	56.3744
EUR	61.4812	61.5947
SDR	77.9582	78.1197

**C Offsetting**

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

**D Sale and repurchase agreements**

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



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

**D Sale and repurchase agreements (continued)**

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

Securities borrowed and securities received as collateral for reverse transactions are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in the profit and loss account for the period. The obligation to return them is recorded at fair value as a trading liability. Sale and repurchase agreements are stated at amortized cost in the same way as loans and receivables, (see Note 2H) less any reduction for impairment (see Note 2J).

**E Deposits with banks**

Deposits with banks are stated at amortized cost in the same way as loans and receivables, (see Note 2H) less any reduction for impairment (see Note 2J).

**F Monetary gold**

Monetary gold consists of gold deposits held with correspondent banks and the stocks of gold bars of international standard held in the vault of the National Bank. Monetary gold is part of the foreign reserves. Monetary gold is recorded in physical weight in troy ounces.

Monetary gold is classified as financial assets at fair value through profit and loss statement designated as such at the initial recognition and is measured at fair value. The fair value of the monetary gold is linked with the price of the gold and is calculated on the basis of the morning market price of one ounce of gold on the London Bullion Market in US Dollars, converted to MKD at the spot MKD/USD exchange rate at the date of the financial statements.

Realized and unrealized gains and losses from the revaluation of gold at the end of the accounting period arising as a result of the changes in the market price and exchange rate differences of the MKD against the USD are recognized directly to the income statement. Interest from monetary gold is included in the interest income.

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

**G Cash and cash equivalents**

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

**H Financial assets**

The National Bank classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The National Bank determines the classification of its investments at initial recognition.

At initial recognition, all financial assets, except those classified as financial assets at fair value through profit and loss, are recognized at their fair value, plus the transaction costs.

The financial assets at fair value through profit and loss are recognized at their fair value, while the transaction costs are recorded in the income statement at their inception.

*Financial assets at fair value through profit and loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

A financial asset is classified as held for trading if it is acquired principally for the purpose of short term selling or repurchasing and for which there is pattern of short-term profit-taking. Foreign debt securities and derivative financial instruments are classified as trading financial assets. Trading securities and derivative financial instruments are carried at fair value and the fair value differences are recognized in the income statement.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active markets. They arise when the National Bank provides money to a debtor with no intention of trading.

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

**H Financial assets (Continued)**

*Loans and receivables (Continued)*

Loans are recognized when cash is advanced to the borrowers and are carried at amortized cost using the effective interest method. Foreign currencies, foreign currency deposits, Special Drawing Rights, receivables from Government related to IMF, receivables from banks, and other receivables are classified as loans and receivables.

*Held to maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payment periods and fixed maturities that the National Bank has the intention and ability to hold to maturity.

Held-to-maturity investments are carried at amortized cost using the effective interest method.

Were the National Bank to sell or reclassify a significant amount of held-to-maturity assets before the date of maturity, the entire category would be tainted and reclassified as "available for sale".

*Available for sale financial assets*

Available-for-sale financial assets are those financial assets that the National Bank intends to hold for an indefinite period of time, which may be sold in response to needs for liquidity.

Available-for-sale financial assets are subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices.

Unquoted equity instruments whose fair value cannot be reliably determined are carried at cost, less impairment.

Unrealized gains and losses are reported as a separate component of other comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gains or losses previously reported in other comprehensive income are included in the income statement for the period.

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

**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**

*Assets carried at amortized cost*

The National Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Estimates of future cash flows should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assessment of future cash flows are reviewed regularly by the National Bank to reduce any differences between loss estimates and realized actual loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit standing), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for financial asset impairment in the income statement or are recognized in other operating income.

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

**J Impairment and uncollectibility of financial assets (Continued)**

*Assets classified as available for sale*

The National Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. In such case, the cumulative loss – measured as the difference between the current fair value and the cost, less any impairment loss on that financial asset recognized in previous periods – is removed from other comprehensive income and recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement, and each subsequent increase of fair value is recognized in other comprehensive income.

**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 held for sale and disposal group are classified as such if it is expected that their carrying amount will be recovered through sale rather than through continuing 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.

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

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

**M Property and equipment**

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

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

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

	<b>2016</b>	<b>2015</b>
Buildings	5 to 50 years	5 to 50 years
Equipment	3 to 10 years	3 to 10 years
Transport vehicles	5 to 6 years	5 to 6 years
Office furniture	5 to 10 years	5 to 10 years

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

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

**N Intangible assets**

Intangible assets consist of computer software and licenses. These assets are stated at their cost and are reduced for the accumulated amortization and impairment losses. They are amortized on a straight-line basis over the estimated useful life, not exceeding a period of 3 to 5 years.

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

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

**P Coins from precious metals**

Coins from precious metals include jubilee coins and collector coins.

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

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

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

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

**Q Fiduciary activities**

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

**R Currency in circulation**

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

**S Short-term securities**

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

**T Deposits**

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

**U Provisions**

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



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

**V Borrowings**

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

**W Recognition of income and expense**

*Interest income and expense*

Interest income and expense for all interest-bearing financial instruments, except interest on trading securities, are recognized in the income statement on an accrual basis using the effective interest method.

*Dividend income*

Dividends on available-for-sale equity instruments are recognized in the income statement when the right to receive payment is established.

*Fee and other income and expense*

Fees and other income are recognized on an accrual basis.  
Fees and other expenses are recognized on an accrual basis.

*Net income from trading securities and derivatives*

Net trading income 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 trading securities (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.

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

**Y Employment benefits**

*Pension insurance contribution - defined contributions plan*

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

*Other long-term employment benefits*

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

The liability for long-term employment benefits, other than pension insurance contributions, is equal to the amount of the future benefits exercised by the employees on the basis of their labor over the current and past periods, discounted to its carrying amount by applying weighted interest rate on bonds issued by the Republic of Macedonia during 2016.

**Z Taxation**

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

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

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

**Segment reporting**

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

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

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

#### **A Credit risk**

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

Foreign assets are invested in instruments issued or guaranteed by governments or government agencies, international financial institutions and multilateral development banks, commercial banks and financial institutions enjoying long-term credit rating of minimum BBB-/Baa3 or equivalent, assigned by internationally recognized rating agencies.

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

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

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

Comparative rating scale	Long-term credit rating: Standard & Poor's or equivalent
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 table below presents maximum exposure to credit risk by type of assets:

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Foreign currency deposits		
- Current accounts	7,363,843	7,856,886
- Term deposits	8,512,920	9,333,814
Foreign securities	129,238,819	108,378,494
Gold deposits	14,932,994	13,087,503
Special Drawing Rights	291,521	295,023
Receivables from Government related to IMF	5,115,374	5,125,971
Government securities	940,221	911,674
<b>Receivables from Government</b>	<b>6,055,595</b>	<b>6,037,645</b>
Receivables from banks	15,912	15,912
Operating receivables	34,747	28,308
<b>As at 31 December</b>	<b>166,446,351</b>	<b>145,033,585</b>

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

The table below presents an analysis of the financial assets that are neither due, nor impaired, by rating agency designation as at 31 December 2016, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	Special Drawing Rights	Receivables from Government	Receivables from banks	Operating receivables	Total
AAA	-	5,291,082	583,501	29,100,409	-	-	-	-	<b>34,974,992</b>
AA+	-	1,205,739	-	38,735,151	-	-	-	-	<b>39,940,890</b>
AA	8,159,038	763,565	-	12,195,024	-	-	-	-	<b>21,117,627</b>
AA-	1,353,071	4,137	-	9,739,232	-	-	-	-	<b>11,096,440</b>
A+	676,119	17,027	1,216,742	8,708,733	-	-	-	-	<b>10,618,621</b>
A	4,733,232	10,843	6,712,677	5,840,714	-	-	-	-	<b>17,297,466</b>
A-	-	-	-	730,257	-	-	-	-	<b>730,257</b>
II <sup>1</sup>	11,534	1,549	-	41,903	291,521	-	-	-	<b>346,507</b>
BBB+	-	4,529	-	22,308,330	-	-	-	-	<b>22,312,859</b>
BBB	-	988	-	-	-	-	-	-	<b>988</b>
BBB-	-	64,384	-	1,839,066	-	-	-	-	<b>1,903,450</b>
BB <sup>-2</sup>	-	-	-	-	-	6,055,595	-	-	<b>6,055,595</b>
Unrated	-	-	-	-	-	-	15,912	34,747	<b>50,659</b>
<b>Total</b>	<b>14,932,994</b>	<b>7,363,843</b>	<b>8,512,920</b>	<b>129,238,819</b>	<b>291,521</b>	<b>6,055,595</b>	<b>15,912</b>	<b>34,747</b>	<b>166,446,351</b>

The table below presents an analysis of the financial assets that are neither past due, nor impaired, by rating agency designation as at 31 December 2015, based on Standard & Poor's ratings or their equivalent:

<sup>1</sup> International Institutions

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****A Credit risk (Continued)**

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	Special Drawing Rights	Receivables from Government	Receivables from banks	Operating receivables	Total
AAA	1,068,855	5,484,048	3,100,771	34,349,727	-	-	-	-	<b>44,003,401</b>
AA+	-	1,195,729	-	36,036,303	-	-	-	-	<b>37,232,032</b>
AA	-	1,090,885	-	19,809,570	-	-	-	-	<b>20,900,455</b>
AA-	4,195,536	15,369	201,653	4,605,345	-	-	-	-	<b>9,017,903</b>
A+	6,617,662	2,331	2,240,189	6,080,911	-	-	-	-	<b>14,941,093</b>
A	1,195,233	35,090	3,791,201	-	-	-	-	-	<b>5,021,524</b>
A-	-	-	-	2,889,220	-	-	-	-	<b>2,889,220</b>
II3	10,217	683	-	41,989	295,023	-	-	-	<b>347,912</b>
BBB+	-	29,381	-	3,080,794	-	-	-	-	<b>3,110,175</b>
BBB	-	3,370	-	-	-	-	-	-	<b>3,370</b>
BBB-	-	-	-	1,484,635	-	-	-	-	<b>1,484,635</b>
BB-4	-	-	-	-	-	6,037,645	-	-	<b>6,037,645</b>
Unrated	-	-	-	-	-	-	15,912	28,308	<b>44,220</b>
<b>Total</b>	<b>13,087,503</b>	<b>7,856,886</b>	<b>9,333,814</b>	<b>108,378,494</b>	<b>295,023</b>	<b>6,037,645</b>	<b>15,912</b>	<b>28,308</b>	<b>145,033,585</b>

Financial assets which are individually impaired are presented in other receivables (Note 26) and operating receivables (Note 31).

**Concentration of risks of financial assets with credit risk exposure**

The following table breaks down the National Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2016. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

<sup>3</sup> International Institutions

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(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**

	EU Countries	Non-EU member countries	Republic of Macedonia	Other OECD countries	Other countries	Total
Gold deposits	12,892,270	11,534	-	2,029,190	-	<b>14,932,994</b>
Current accounts	6,125,456	9,078	-	1,229,309	-	<b>7,363,843</b>
Term deposits	5,362,924	583,500	-	2,566,496	-	<b>8,512,920</b>
Foreign securities	88,804,702	41,903	-	36,486,991	3,905,223	<b>129,238,819</b>
Special Drawing Rights	-	-	-	291,521	-	<b>291,521</b>
Receivables from Government	-	-	6,055,595	-	-	<b>6,055,595</b>
Receivables from banks	-	-	15,912	-	-	<b>15,912</b>
Operating receivables	-	-	34,747	-	-	<b>34,747</b>
<b>31 December 2016</b>	<b>113,185,352</b>	<b>646,015</b>	<b>6,106,254</b>	<b>42,603,507</b>	<b>3,905,223</b>	<b>166,446,351</b>
<b>31 December 2015</b>	<b>89,724,722</b>	<b>4,012,670</b>	<b>6,081,865</b>	<b>45,214,328</b>	-	<b>145,033,585</b>

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

The National Bank monitors and manages both currency and interest rate risks as the basic market risk factors. The main objective of the National Bank in managing the market risk is explained in Note 1. Currency risk is a risk arising from a decline of the value of the financial instruments denominated in foreign currency due to the change in the exchange rates. The interest rate risk denotes a risk from reducing the market value of the financial instruments due to the unfavorable movements of interest rates. The market risk management is performed by setting quantitative limits for foreign assets risk exposure acceptable for the National Bank and they are monitored on a daily basis. In 2016, a budget for risk was introduced in accordance with the Policies and regulations for management and investment of foreign reserves, which limit the level of reduction in the market value of foreign reserves to the level of the budget specified for risk.

For the purpose of quantifying the market risks effect on the foreign reserves value, the National Bank applies the Value at Risk (VAR) concept. VAR represents a statistical methodology for assessing the maximum change in the foreign reserves value arising from differences in the financial instruments prices and the foreign exchange rates given a certain level of confidence and a particular time horizon. The National Bank, when calculating VAR, applies a level of confidence of 95% and a one year horizon<sup>5</sup>, and 99% and a 10-day horizon<sup>6</sup>. The fluctuation of the prices of the instruments and the foreign exchange rates are determined according to the historical changes in the prices and the foreign exchange rates for instruments and currencies comprising the foreign reserves at the end of the month.

In December 2016, 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 2,341,523 thousands (Euro 38,085,183), or 1.5% of the foreign reserves. The VAR originating from the change in the foreign exchange rate for the same horizon (on a diversified basis and included change in the price of gold) amounts to MKD 2,191,731 thousands (Euro 35,648,798), while VAR from the change in the prices of instruments in which the foreign reserves are invested totals MKD 149,792 thousands (Euro 2,436,385).

	<b>31 December 2016</b>	<b>31 December 2015</b>
Currency risk	2,191,731	2,999,546
Interest rate risk	149,792	64,949
Total VAR	2,341,523	3,064,495

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

<sup>6</sup> As recommended in the Basel Agreement from 1999.



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

**C Foreign exchange risk**

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

The currency structure of the foreign reserves is determined by the currency structure of the interventions to support the foreign exchange rate of the Denar against the Euro, the currency structure of external liabilities of the National Bank and the Government, foreign trade, and other needs for liquidity. Consequently, the Euro dominates the currency structure of the foreign reserves. The share of other currencies is to provide suitable profitability in the long term, taking into account the restrictions on undertaking currency risk determined by the level of other reserves from foreign exchange gains. 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 2016 and 31 December 2015, analyzed by currency.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2016:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign assets	315,700	35,904	-	10,342	-	<b>361,946</b>
Foreign currency deposits	7,333,518	8,522,404	-	20,841	-	<b>15,876,763</b>
Foreign securities	80,566,864	48,630,052	41,903	-	-	<b>129,238,819</b>
Gold	-	14,960,273	-	-	-	<b>14,960,273</b>
Special Drawing Rights	-	-	291,521	-	-	<b>291,521</b>
Receivables from Government	-	-	5,115,374	-	940,221	<b>6,055,595</b>
IMF Membership Receivables from banks	-	-	10,801,936	-	-	<b>10,801,936</b>
Operating receivables and other assets	-	-	-	-	15,912	<b>15,912</b>
	715	119	1,835	11,615	21,064	<b>35,348</b>
<b>Total assets</b>	<b>88,216,797</b>	<b>72,148,752</b>	<b>16,252,569</b>	<b>42,798</b>	<b>977,197</b>	<b>177,638,113</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	34,430,041	<b>34,430,041</b>
Bank deposits	4,580,889	-	-	-	31,097,183	<b>35,678,072</b>
Reserve requirements	14,078,656	-	-	-	21,612	<b>14,100,268</b>
National Bank Bills issued	-	-	-	-	22,973,701	<b>22,973,701</b>
Government deposits	21,619,990	5,957	-	36,364	13,955,152	<b>35,617,463</b>
Restricted deposits	479,811	82,487	-	22	-	<b>562,320</b>
Payables to IMF	-	-	15,917,310	-	-	<b>15,917,310</b>
Other deposits	-	-	-	-	1,152,547	<b>1,152,547</b>
Other liabilities	397,070	21,848	1,835	45,787	266,870	<b>733,410</b>
<b>Total liabilities</b>	<b>41,156,416</b>	<b>110,292</b>	<b>15,919,145</b>	<b>82,173</b>	<b>103,897,106</b>	<b>161,165,132</b>
<b>Net financial position</b>	<b>47,060,381</b>	<b>72,038,460</b>	<b>333,424</b>	<b>(39,375)</b>	<b>(102,919,909)</b>	<b>16,472,981</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2015:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign assets	306,526	60,788	-	17,782	-	<b>385,096</b>
Foreign currency deposits	9,982,824	6,376,397	-	831,479	-	<b>17,190,700</b>
Foreign securities	48,006,637	49,568,598	41,989	10,761,270	-	<b>108,378,494</b>
Gold	-	13,111,666	-	-	-	<b>13,111,666</b>
Special drawing rights	-	-	295,023	-	-	<b>295,023</b>
Receivables from Government	-	-	5,125,971	-	911,674	<b>6,037,645</b>
IMF Membership Receivables from banks	-	-	5,422,197	-	-	<b>5,422,197</b>
Operating receivables and other assets	-	-	-	-	15,912	<b>15,912</b>
	609	52	428	11,441	16,398	<b>28,928</b>
<b>Total assets</b>	<b>58,296,596</b>	<b>69,117,501</b>	<b>10,885,608</b>	<b>11,621,972</b>	<b>943,984</b>	<b>150,865,661</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	31,950,962	<b>31,950,962</b>
Bank deposits Reserve requirements	-	-	-	-	25,427,842	<b>25,427,842</b>
National Bank Bills issued	13,259,751	-	-	-	21,006	<b>13,280,757</b>
Government deposits	-	-	-	-	25,045,631	<b>25,045,631</b>
Restricted deposits	17,338,007	7,838	-	47,059	11,344,247	<b>28,737,151</b>
Payables to IMF	304,468	81,454	-	395	-	<b>386,317</b>
Other deposits	-	-	10,548,168	-	-	<b>10,548,168</b>
Other liabilities	-	-	-	-	171,064	<b>171,064</b>
	441,725	31,065	428	46,665	275,524	<b>795,407</b>
<b>Total liabilities</b>	<b>31,343,951</b>	<b>120,357</b>	<b>10,548,596</b>	<b>94,119</b>	<b>94,236,276</b>	<b>136,343,299</b>
<b>Net financial position</b>	<b>26,952,645</b>	<b>68,997,144</b>	<b>337,012</b>	<b>11,527,853</b>	<b>(93,292,292)</b>	<b>14,522,362</b>

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

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### **Notes to the Financial Statements for the year ended 31 December 2016**

*(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 in the course of management of the foreign reserves, 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 2016 and 31 December 2015 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 MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2016:

	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		
<b>ASSETS</b>							
Foreign assets	-	-	-	-	-	361,946	<b>361,946</b>
Foreign currency deposits	14,645,205	-	1,229,624	-	-	1,934	<b>15,876,763</b>
Foreign securities	3,060,254	3,134,479	87,319,939	15,976,036	18,682,233	1,065,878	<b>129,238,819</b>
Gold	2,031,345	3,376,659	8,142,938	-	-	1,409,331	<b>14,960,273</b>
Special drawing rights	291,521	-	-	-	-	-	<b>291,521</b>
Receivables from Government	-	-	-	940,221	-	5,115,374	<b>6,055,595</b>
IMF Membership Receivables from banks	-	-	-	-	-	10,801,936	<b>10,801,936</b>
Operating receivables and other assets	-	-	-	15,912	-	-	<b>15,912</b>
	-	-	-	-	-	35,348	<b>35,348</b>
<b>Total assets</b>	<b>20,028,325</b>	<b>6,511,138</b>	<b>96,692,501</b>	<b>16,932,169</b>	<b>18,682,233</b>	<b>18,791,747</b>	<b>177,638,113</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	34,430,041	<b>34,430,041</b>
Bank deposits Reserve requirements	13,305,000	-	4,580,350	-	-	17,792,722	<b>35,678,072</b>
National Bank Bills issued	-	-	-	-	-	14,100,268	<b>14,100,268</b>
Government deposits	22,933,116	-	-	-	-	40,585	<b>22,973,701</b>
Restricted deposits	32,616,994	-	-	-	-	3,000,469	<b>35,617,463</b>
Payables to IMF	-	-	-	-	-	562,320	<b>562,320</b>
Other deposits	-	-	-	-	-	15,917,310	<b>15,917,310</b>
Other liabilities	1,112,950	-	-	-	-	39,597	<b>1,152,547</b>
	-	-	-	-	-	733,410	<b>733,410</b>
<b>Total liabilities</b>	<b>69,968,060</b>	<b>-</b>	<b>4,580,350</b>	<b>-</b>	<b>-</b>	<b>86,616,722</b>	<b>161,165,132</b>
<b>Total interest rate risk</b>	<b>(49,939,735)</b>	<b>6,511,138</b>	<b>92,112,151</b>	<b>16,932,169</b>	<b>18,682,233</b>	<b>(67,824,975)</b>	<b>16,472,981</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2015:

	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		
<b>ASSETS</b>							
Foreign assets	-	-	-	-	-	385,096	<b>385,096</b>
Foreign currency deposits	13,637,786	164,362	3,387,709	-	-	843	<b>17,190,700</b>
Foreign securities	2,104,878	1,826,128	99,822,451	3,743,810	-	881,227	<b>108,378,494</b>
Gold	4,191,672	2,406,464	5,404,224	-	-	1,109,306	<b>13,111,666</b>
Special drawing rights	295,023	-	-	-	-	-	<b>295,023</b>
Receivables from Government	-	-	-	911,674	-	5,125,971	<b>6,037,645</b>
IMF Membership	-	-	-	-	-	5,422,197	<b>5,422,197</b>
Receivables from banks	-	-	-	15,912	-	-	<b>15,912</b>
Operating receivables and other assets	-	-	-	-	-	28,928	<b>28,928</b>
<b>Total assets</b>	<b>20,229,359</b>	<b>4,396,954</b>	<b>108,614,384</b>	<b>4,671,396</b>	<b>-</b>	<b>12,953,568</b>	<b>150,865,661</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	31,950,962	<b>31,950,962</b>
Bank deposits	8,921,000	-	-	-	-	16,506,842	<b>25,427,842</b>
Reserve requirements	-	-	-	-	-	13,280,757	<b>13,280,757</b>
National Bank Bills issued	25,011,786	-	-	-	-	33,845	<b>25,045,631</b>
Government deposits	26,033,864	-	-	-	-	2,703,287	<b>28,737,151</b>
Restricted deposits	-	-	-	-	-	386,317	<b>386,317</b>
Payables to IMF	-	-	-	-	-	10,548,168	<b>10,548,168</b>
Other deposits	136,120	-	-	-	-	34,944	<b>171,064</b>
Other liabilities	-	-	-	-	-	795,407	<b>795,407</b>
<b>Total liabilities</b>	<b>60,102,770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,240,529</b>	<b>136,343,299</b>
<b>Total interest rate risk</b>	<b>(39,873,411)</b>	<b>4,396,954</b>	<b>108,614,384</b>	<b>4,671,396</b>	<b>-</b>	<b>(63,286,961)</b>	<b>14,522,362</b>

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

**E Liquidity risk**

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

Liquidity is maintained by placing foreign assets on current accounts in foreign currencies, short-term deposits, and debt securities for which a developed and liquid secondary market exists. The National Bank manages the liquidity risk by determining and maintaining liquid assets at levels sufficient for conducting monetary and foreign exchange policies, timely and regular payments of the external debt and current and/or capital expenditures with foreign currency component for the account of the government, and meets the transactional needs in the management of foreign reserves. According to the new Policies and Procedures for managing and investing foreign reserves of December 2015, consistent with the best global practices, in 2016, a new approach to liquidity risk management was adopted and a new operational portfolio was defined for more active liquidity management. The operational portfolio provides liquidity to realize cash flows for a period of one month, and the level of the liquidity portfolio is determined dynamically, at the minimum level of the operational portfolio for the following 12 months. The operational and the liquidity portfolio is forecast at least once a year, and reviewed periodically based on the forecast of the needs for liquidity, the expected foreign currency needs of the country in the medium term and the vulnerability assessment of the balance of payments. The maximum maturity of the deposits in the operational portfolio is two weeks, whereas the maximum remaining maturity date for the debt securities is up to one month. The modified duration of the liquidity portfolio is lower than the investment portfolio and is determined depending on the market conditions and the acceptable level of interest rate risk. Availability of foreign exchange liquidity is not confined to the operational and the liquidity portfolio, when the investment in debt securities provides sufficient liquidity through their prompt conversion into foreign assets within the investment portfolio.

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

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****E Liquidity risk (Continued)**

<b>31 December 2016</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Currency in circulation	34,430,041	-	-	-	-	<b>34,430,041</b>
Bank deposits	14,561,355	1,229,691	19,887,026	-	-	<b>35,678,072</b>
Reserve requirements	-	-	14,100,268	-	-	<b>14,100,268</b>
National Bank Bills issued	22,973,701	-	-	-	-	<b>22,973,701</b>
Government deposits	35,617,463	-	-	-	-	<b>35,617,463</b>
Restricted deposits	140,078	295,739	126,503	-	-	<b>562,320</b>
Payables to IMF	15,917,310	-	-	-	-	<b>15,917,310</b>
Other deposits	1,152,547	-	-	-	-	<b>1,152,547</b>
Other liabilities	642,679	63,900	26,831	-	-	<b>733,410</b>
<b>Total liabilities</b> (contractual maturity dates)	<b>125,435,174</b>	<b>1,589,330</b>	<b>34,140,628</b>	-	-	<b>161,165,132</b>
<b>Assets held for managing liquidity risk</b> (expected maturity dates)	<b>124,713,252</b>	<b>14,580,603</b>	<b>2,473,845</b>	<b>16,988,223</b>	<b>18,882,190</b>	<b>177,638,113</b>

<b>31 December 2015</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Currency in circulation	31,950,962	-	-	-	-	<b>31,950,962</b>
Bank deposits	9,446,165	-	15,981,677	-	-	<b>25,427,842</b>
Reserve requirements	-	-	13,280,757	-	-	<b>13,280,757</b>
National Bank Bills issued	25,045,631	-	-	-	-	<b>25,045,631</b>
Government deposits	28,737,151	-	-	-	-	<b>28,737,151</b>
Restricted deposits	83,765	-	85,924	216,628	-	<b>386,317</b>
Payables to IMF	10,548,168	-	-	-	-	<b>10,548,168</b>
Other deposits	171,064	-	-	-	-	<b>171,064</b>
Other liabilities	703,038	64,997	27,372	-	-	<b>795,407</b>
<b>Total liabilities</b> (contractual maturity dates)	<b>106,685,944</b>	<b>64,997</b>	<b>29,375,730</b>	<b>216,628</b>	-	<b>136,343,299</b>
<b>Assets held for managing liquidity risk</b> (expected maturity dates)	<b>120,620,793</b>	<b>6,846,170</b>	<b>18,685,313</b>	<b>4,671,396</b>	<b>41,989</b>	<b>150,865,661</b>



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****F Fair value of financial assets and liabilities**

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

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

	Carrying value		Fair value	
	2016	2015	2016	2015
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Foreign currencies	361,946	385,096	361,946	385,096
Foreign currencies deposits	15,876,763	17,190,700	15,876,763	17,190,700
Special Drawing Rights	291,521	295,023	291,521	295,023
Receivable from				
Government related to IMF	5,115,374	5,125,971	5,115,374	5,125,971
IMF Membership	10,801,936	5,422,197	10,801,936	5,422,197
Receivables from banks	15,912	15,912	15,912	15,912
Operating receivables and other assets	35,348	28,928	35,348	28,928
	<b>32,498,800</b>	<b>28,463,827</b>	<b>32,498,800</b>	<b>28,463,827</b>
<i>Securities held to maturity</i>				
Foreign debt securities	41,118,725	21,515,244	40,720,576	21,555,211
Government securities	940,221	911,674	940,221	911,674
	<b>42,058,946</b>	<b>22,426,918</b>	<b>41,660,797</b>	<b>22,466,885</b>
<i>Securities available for sale</i>				
Foreign equity securities	41,903	41,989	41,903	41,989
	<b>41,903</b>	<b>41,989</b>	<b>41,903</b>	<b>41,989</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***3. Financial risk management (Continued)****F Fair value of financial assets and liabilities (Continued)**

	Carrying value		Fair value	
	2016	2015	2016	2015
<b>Financial liabilities</b>				
<i>Carried at amortized cost</i>				
Currency in circulation	34,430,041	31,950,962	34,430,041	31,950,962
Bank deposits	35,678,072	25,427,842	35,678,072	25,427,842
Reserve requirement of banks and saving houses	14,100,268	13,280,757	14,100,268	13,280,757
National Bank bills issued	22,973,701	25,045,631	22,973,701	25,045,631
Government MKD deposits	13,955,152	11,344,247	13,955,152	11,344,247
Government foreign currency deposits	21,662,311	17,392,904	21,662,311	17,392,904
Payables to IMF	15,917,310	10,548,168	15,917,310	10,548,168
Other and restricted deposits	1,714,867	557,381	1,714,867	557,381
Other liabilities	733,410	795,407	733,410	795,407
	<b>161,165,132</b>	<b>136,343,299</b>	<b>161,165,132</b>	<b>136,343,299</b>

**Financial assets**

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

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

As explained in Note 18, available-for-sale securities include Bank for International Settlement (BIS) shares with a value of MKD 41,903 thousand (2015: MKD 41,989 thousand), for which fair value cannot be reliably determined and therefore they are carried at cost. However, due to the specific role of BIS, fair value of these shares is considered to approximate their carrying value.

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

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

**Financial assets (Continued)**

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

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

**Financial liabilities**

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

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

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

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(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.

**Assets and liabilities measured at fair value through income statement**

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign debt securities	88,078,191	-	-	88,078,191
Gold	14,960,273	-	-	14,960,273
<b>Total financial assets</b>	<b>103,038,464</b>	<b>-</b>	<b>-</b>	<b>103,038,464</b>

<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign debt securities	86,821,261	-	-	86,821,261
Gold	13,111,666	-	-	13,111,666
<b>Total financial assets</b>	<b>99,932,927</b>	<b>-</b>	<b>-</b>	<b>99,932,927</b>

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

The National Bank makes estimates and assumptions that affect the amounts presented in the financial statements. Estimates and judgments are continually re-evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Held-to-maturity investments*

The National Bank has applied the guidance of IAS 39 in connection with classifying non-derivative financial assets with fixed or determined payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the National Bank evaluates its own intention and ability to hold such investments to maturity. If the National Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, and not at amortized cost.

*Fair value of the assets*

The National Bank uses techniques for determining the fair value of those financial assets for which there is no available market value, as well as non-financial assets. These techniques include estimates and assumptions that market participants would use in determining the value of the asset. The National Bank estimates the value based on the available information. Estimated values may differ from the value that would be achieved in the transaction at the measurement date. The amounts presented in the financial statements reflect the most authentic estimated fair value for financial reporting purposes, in accordance with IRFS.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***5. Interest income**

	Government	Domestic banks	Foreign subjects	Total 2016	Total 2015
Deposits	-	-	45,611	<b>45,611</b>	<b>23,866</b>
Held to maturity securities	28,547	-	134,953	<b>163,500</b>	<b>179,926</b>
Gold deposits	-	-	40,892	<b>40,892</b>	<b>40,445</b>
Reverse repos in foreign currency	-	-	8,538	<b>8,538</b>	<b>11,644</b>
Repos in foreign currency (negative interest)	-	-	16,808	<b>16,808</b>	-
Reverse repos in denars	-	2,309	-	<b>2,309</b>	<b>885</b>
Other interest	157	239	-	<b>396</b>	<b>1,262</b>
<b>Total for 2016</b>	<b>28,704</b>	<b>2,548</b>	<b>246,802</b>	<b>278,054</b>	<b>258,028</b>
<b>Total for 2015</b>	<b>28,475</b>	<b>1,352</b>	<b>228,201</b>	<b>258,028</b>	

**6. Interest expense**

	Government	Domestic banks and other financial institutions	Foreign subjects	Total 2016	Total 2015
Foreign currency deposits (negative interest)	-	-	22,092	<b>22,092</b>	<b>6,783</b>
Deposits	263,471	37,048	-	<b>300,519</b>	<b>269,344</b>
National Bank bills	-	854,123	-	<b>854,123</b>	<b>831,626</b>
Repos transactions	-	-	1,297	<b>1,297</b>	<b>1,947</b>
Reverse repos (negative interest)	-	-	14,407	<b>14,407</b>	-
<b>Total for 2016</b>	<b>263,471</b>	<b>891,171</b>	<b>37,796</b>	<b>1,192,438</b>	<b>1,109,700</b>
<b>Total for 2015</b>	<b>211,517</b>	<b>889,453</b>	<b>8,730</b>	<b>1,109,700</b>	

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

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

#### **7. Fee income**

	<b>2016</b>	<b>2015</b>
Fees from providing cash to banks	73,771	68,851
Fees from domestic banks for maintaining account based on debt turnover on an account	114,727	119,559
Fees based on settlement of payments (RTGS)	38,567	41,030
Fees from foreign exchange operations	22,503	21,772
Fees from sale of bills of exchange	786	877
Other fees	18,546	18,641
<b>Total</b>	<b>268,900</b>	<b>270,730</b>

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

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

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

Fees originating from sale of bills of exchanges pertain to the registered income from sale of bills of exchange belonging to the National Bank, in accordance with the concluded agreement with the Ministry of Finance regulating the activities for their printing and distribution.

#### **8. Fee expense**

	<b>2016</b>	<b>2015</b>
Fees to foreign banks	31,902	34,861
<b>Total</b>	<b>31,902</b>	<b>34,861</b>

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

The main part of the fee expenses is related to the expenses paid by the National Bank for the RAMP program for managing foreign assets and expenses paid to the foreign banks and custodians for securities maintenance.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***9. Net unrealized price and exchange rate differences**

	<b>2016</b>	<b>2015</b>
Unrealized positive exchange rate differences	6,535,974	12,189,713
Unrealized negative exchange rate differences	(5,858,416)	(9,327,429)
Unrealized positive price and exchange rate differences from gold	17,088,769	13,461,508
Unrealized negative price and exchange rate differences from gold	(15,473,271)	(13,849,201)
<b>Total</b>	<b>2,293,056</b>	<b>2,474,591</b>

**10. Net income from trading securities and derivatives**

	<b>2016</b>	<b>2015</b>
Realized gains from trading securities	151,078	47,322
Realized losses from trading securities	(471,793)	(506,372)
Unrealized positive price differences from trading securities	65,113	30,253
Unrealized negative price differences from trading securities	(1,037,718)	(1,003,666)
Interest income from trading securities	1,728,938	1,754,574
<b>Total net income from trading securities</b>	<b>435,618</b>	<b>322,111</b>
Realized gains from derivative financial instruments – futures	1,256	-
Realized losses from derivative financial instruments - futures	(650)	-
Unrealized positive price differences from derivative financial instruments - futures	2,137	-
Unrealized negative price differences from derivative financial instruments – futures	-	-
<b>Total net income from derivatives - futures</b>	<b>2,743</b>	<b>-</b>
<b>Total net income from trading securities and derivatives</b>	<b>438,361</b>	<b>322,111</b>

The net income realized as part of the RAMP<sup>7</sup> program with the World bank in the amount of MKD 78,072 thousands, is included in the net income from trading securities and derivatives for 2016 (2015: MKD 16,822 thousands).

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<sup>7</sup> Reserve Advisory Management Program



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***11. Dividend income**

	<b>2016</b>	<b>2015</b>
Dividend income on investments in BIS	7,185	7,503
<b>Total</b>	<b>7,185</b>	<b>7,503</b>

**12. Other operating income**

	<b>2016</b>	<b>2015</b>
Realized positive exchange rate and price differences, net	477,568	579,823
Revenue from melting gold into monetary gold	46,079	-
Royalty income from collector coins	4,749	3,673
Revenue from sale of collector coins	1,432	1,835
Income from sale of jubilee coins	-	56
Other income	19,839	19,560
<b>Total</b>	<b>549,667</b>	<b>604,947</b>

The net realized positive exchange rate and price differences arise from purchase and sale of foreign currency with domestic banks, purchase and sale of gold and foreign currency with foreign banks, as well as from the spread between middle and ask rate when selling foreign currency to the government bodies for the purpose of executing international foreign exchange payments. Revenue from melting of gold into monetary gold are a result of the melting of seized gold yielded to the National Bank into monetary gold, based on the Law Amending the Law on Management of Confiscated Property, Property Benefits, and Items Seized in criminal proceedings.<sup>8</sup>

**13. Personnel expenses**

	<b>2016</b>	<b>2015</b>
Wages and personal income tax	285,756	279,752
Pension cost – defined contribution plans	70,763	69,105
Mandatory contributions	35,381	34,553
Other personnel expenses	8,170	18,420
<b>Total</b>	<b>400,070</b>	<b>401,830</b>

In 2016, the remuneration of the key management of the National Bank was MKD 13,453 thousands (2015: MKD 13,973 thousands), included in "Personnel expenses" above.

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<sup>8</sup> Official Gazette of the Republic of Macedonia No. 97/2015

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***14. Other expenses**

	<b>2016</b>	<b>2015</b>
Costs of production of banknotes and coins	77,547	59,677
Services	65,176	63,416
Material expenses	25,536	29,857
Other administrative expenses	19,482	20,950
Collector coins expenses	3,570	2,937
Other expenses	1,397	1,262
<b>Total</b>	<b>192,708</b>	<b>178,099</b>

The costs of banknote and coin manufacture mainly relate to imported banknotes and coins, and to the materials purchased for minting coins (coin blanks). Banknotes are printed and coins are minted by domestic or foreign manufacturers, and the coin minting using the purchased coin blanks is made by the National Bank. The National Bank applies a policy of differentiating the costs of manufacture of banknotes and coins depending on the period of their use, within a period of 2 to 3 years.

**15. Provisions and write offs**

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Release of impairment on loans and placements	26	-	(192,395)
Charged/Released impairment loss for other receivables	31	69	(10,508)
Released provisions related to lawsuits with legal entities and individuals	43	-	(715)
Charged/Released impairment for interest income	31	5	(2,450)
Charged impairment loss on noncurrent assets held for sale	27	5,385	-
Charged impairment loss on intangible assets	29	-	1,090
Charged impairment loss on assets under construction	28	12,975	-
<b>Total</b>		<b>18,434</b>	<b>(204,978)</b>

**16. Foreign currencies**

Foreign currencies include cash and checks in foreign currency, held in the National Bank vault. Foreign currencies are included in cash equivalents for the purposes of the cash flow statement (Note 46).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***17. Foreign currency deposits**

	<b>2016</b>	<b>2015</b>
Foreign currency sight deposits	7,344,061	7,855,991
Foreign assets placed at World Bank – RAMP	19,782	895
Foreign currency term deposits	7,283,210	5,744,097
Foreign currency term deposits placed at World Bank-RAMP	-	201,653
<b>Included in the cash and cash equivalents (Note 46)</b>	<b>14,647,053</b>	<b>13,802,636</b>
Foreign currency term deposits over 90 days	1,229,710	3,388,064
<b>Total</b>	<b>15,876,763</b>	<b>17,190,700</b>

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

<b>Interest rate type</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
- Overnight deposits in USD	0.37%	0.1%
- Overnight deposits in USD-RAMP	0.44%	0.18%
- Euro overnight deposits	-0.38%	-0.19%
- Term deposits in USD	0.40%	0.27%
- Term deposits in EUR	0.01%	0.08%

**Foreign currency deposits by type of entity**

	<b>2016</b>	<b>2015</b>
Central banks	7,310,193	7,760,304
Foreign commercial banks	8,565,021	9,429,713
International financial institutions	1,549	683
<b>Total</b>	<b>15,876,763</b>	<b>17,190,700</b>

**Foreign currency deposits by geographic location**

	<b>2016</b>	<b>2015</b>
Europe	12,080,958	15,773,313
the Americas	3,790,918	1,406,349
Other	4,887	11,038
<b>Total</b>	<b>15,876,763</b>	<b>17,190,700</b>

**18. Foreign securities**

The National Bank has investments in foreign debt securities and foreign equity securities. The investments in foreign debt securities are classified as trading securities and securities held to maturity.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***18. Foreign securities (Continued)**

	2016	2015
<b>Trading securities</b>	<b>88,078,191</b>	<b>86,821,261</b>
Foreign debt securities	78,243,741	77,577,745
Foreign debt securities - RAMP	9,834,450	9,243,516
<b>Securities held to maturity</b>	<b>41,118,725</b>	<b>21,515,244</b>
Foreign debt securities held to maturity	41,118,725	21,515,244
<b>Securities available for sale</b>	<b>41,903</b>	<b>41,989</b>
Foreign unquoted equity securities	41,903	41,989
<b>Total</b>	<b>129,238,819</b>	<b>108,378,494</b>
Current	94,538,647	104,592,696
Non-current	34,700,172	3,785,798

The trading securities portfolio contains high quality debt securities. The investments in trading securities are marked to market and bear fixed and variable coupon interest at a rate ranging between 0.25% and 5.625% p.a. (2015: from 0.125% to 8.75% p.a.). Foreign trading securities include accrued interest of MKD 715,521 thousand (2015: MKD 608,890 thousand).

Investments in debt securities held for trading which are part of the RAMP program bear fixed and variable coupon interest at a rate ranging between 0.074% and 5.125% p.a. (2015: between 0.074% and 5% p.a.). These debt securities held for trading as part of the RAMP program include accrued interest in the amount of MKD 35,476 thousands (2015: MKD 32,444 thousands).

Securities held to maturity bear fixed income with interest at a rate ranging between 0.25% and 4.875% p.a. (2015: from 0.5% to 5.5% p.a.). Foreign securities held to maturity include accrued interest of MKD 272,978 thousand (2015: MKD 197,904 thousand).

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

**19. Derivatives**

In September 2016, the National Bank of the Republic of Macedonia, through the World Bank RAMP, started applying derivatives – interest rate futures and bond futures. Gains and losses from changes in fair value of futures transactions have been recognized in the income statement (Note 10).

## NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

### Notes to the Financial Statements for the year ended 31 December 2016

(Amounts expressed in thousands of MKD unless otherwise stated)

#### 20. Gold

	2016	2015
Sight gold deposits	1,373,655	1,079,071
Term gold deposits	13,559,339	12,008,432
Gold in the National Bank vault	27,279	24,163
<b>Total</b>	<b>14,960,273</b>	<b>13,111,666</b>
Current	14,960,273	13,111,666

As of 31 December 2016, the National Bank total gold reserves were 221,163.8045 ounces (2015: 218,850.7544 ounces) at a fair value of US Dollar 1,159.10 (MKD 67,605) per ounce (2015: US Dollar 1,062.25 or MKD 59,884 per ounce). In 2016, the amount of gold increased by 2,313.0501 ounces, of which 2,145.408 ounces are result of melting the jubilee gold coins and seized gold items.

Interest rates on term gold deposits in 2016 ranged between 0.02% and 0.71% p.a. for gold deposits based on the price of gold in US Dollar (2015: interest rate between 0.07% and 0.605% p.a.). As of 31 December 2016, term gold deposits include accrued interest of MKD 8,398 thousand (2015: MKD 6,071 thousand).

#### 21. Special Drawing Rights

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. This current account bears interest in the amount of the so-called IMF basic rate. In 2016, the basic rate ranged from 0.05% to 0.273% p.a. (2015: from 0.05% to 0.55% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 46).

#### 22. Receivables from Government related to IMF

	2016	2015
Receivable related to general and special net cumulative allocation	4,462,186	4,471,430
Receivable related to SDR allocation	653,188	654,541
<b>Total</b>	<b>5,115,374</b>	<b>5,125,971</b>
Current	5,115,374	5,125,971

Payables related to the general and special net cumulative allocation include funds that according to the Law on Regulating the Republic of Macedonia's Obligations to the IMF based on the Use of Funds from the General and Special Net Cumulative SDR Allocation, have been approved by a resolution of the Board of Governors of the IMF (Note 40a) and were given for use to the Republic of Macedonia.

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

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

#### **22. Receivables from Government related to IMF (continued)**

The payable based on SDR allocation refers to the SDR allocation in the IMF resulting from the correspondent requirement for the Macedonian part of the liability to the IMF for SDR in accordance with the Law on Legal Inheritance of the Republic of Macedonia of the Membership in the IMF (Note 40a).

#### **23. Government securities**

	<b>2016</b>	<b>2015</b>
<b>Securities held to maturity</b>		
Bond for selective credits	940,221	911,674
<b>Total</b>	<b>940,221</b>	<b>911,674</b>
Non-current	940,221	911,674

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

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

#### **24. IMF Membership**

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

The quota of the Republic of Macedonia for membership in the IMF stands at MKD 10,774,776 thousand at the end of 2016, account no. 1 amounts to MKD 27,004 thousand and account no. 2 is valued at MKD 156 thousand (2015: MKD 5,408,482 thousand, MKD 13,555 thousand, and MKD 160 thousand respectively for the three positions). The differences are due to the increase in the quota of the Republic of Macedonia for IMF membership (Note 40c) and the evaluation of these positions at the SDR exchange rate as of 30 April 2016 and 2015, according to the IMF financial year.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***25. Loans to banks**

	<b>2016</b>	<b>2015</b>
Long-term loans from the conversion of the selective credits from 1996	15,912	15,912
<b>Total</b>	<b>15,912</b>	<b>15,912</b>
Non-current	15,912	15,912

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

**26. Other receivables**

	<b>2016</b>	<b>2015</b>
Receivables from bank under bankruptcy	755,220	756,268
Due auction deposits	8,268	8,268
<b>Total</b>	<b>763,488</b>	<b>764,536</b>
Impairment	(763,488)	(764,536)
<b>Total</b>	<b>-</b>	<b>-</b>

In January 2004, the National Bank paid out MKD 1,018,258 thousand to foreign banks on the basis of guarantees given for borrowings of one Macedonian bank from foreign banks, in accordance with the Decision on the criteria and the conditions for the use of a portion of the foreign reserves based on guarantees for borrowings of Macedonian banks from foreign banks, which ceased being valid in March 2003. The National Bank reflected a receivable from the domestic bank. Bankruptcy proceeding was initiated against the bank in March 2004. The National Bank had receivables from guarantees granted by the bank under bankruptcy worth MKD 1,034,569 thousand. The National Bank made full impairment of the receivables from the bank under bankruptcy. During the period from 2010 to 2013, the National Bank collected part of the receivable in the amount of MKD 24,609 thousand, from the bankruptcy estate of one debtor of the domestic bank in bankruptcy. In 2015, the National Bank collected part of the receivable in amount of MKD 192,395 thousand, and obtained assets (part of building and part of equipment) in the amount of MKD 61,297 thousands. In December 2016, the National Bank foreclosed assets for uncollected receivables (part of a building) in the amount of MKD 1,048 thousand (Note 32).

Overdue receivables from banks also relate to auction deposits of one bank not repaid on time. In 1999, a bankruptcy proceeding was initiated against this bank which is still pending. The National Bank fully impaired the receivables from the bank under bankruptcy. In February 2013, the National Bank collected part of the receivable in the amount of MKD 1,000 thousand from the bank in bankruptcy.

**27. Non-current assets held for sale and disposal group**

Non-current assets held for sale relate to real estate - a building owned by the National Bank, which according to the decision for its sale adopted by the National Bank Council has been reclassified from the category of property and equipment to the category of non-current assets held for sale and disposal group in January 2014. As of 31 December 2016, the balance of this asset amounts MKD 108,047 thousand (2015: MKD 113,431 thousand).

The fair value of non-current asset held for sale is determined on the basis of three estimates of the market value made by external certified appraisers at the time of reclassification of the asset. Fair value is estimated applying the Methodology for estimating market value of properties in the Republic of Macedonia. Such established market value can be classified in the Fair Value Hierarchy Level 2 – Valuation Techniques Using Observable Inputs. The difference between the estimated fair value and the carrying value at the time of reclassification of the asset as noncurrent assets held for sale, in the amount of MKD 5,170 thousand, is recorded as impairment loss.

In May 2016, the National Bank recorded impairment loss on noncurrent assets held for sale in the amount of MKD 5,385 thousands (Note 15).



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***28. Property and equipment**

	Land and buildings	Furniture, equipment and vehicles	Works of art	Professional literature	Assets under construction	Total assets for business purposes	Property and equipment for entertainment purposes	Total
<b>On 1 January 2015</b>								
Cost	804,993	527,582	64,219	327	14,727	1,411,848	34,151	1,445,999
Accumulated depreciation	(313,978)	(423,398)	-	-	-	(737,376)	(18,155)	(755,531)
<b>On 1 January 2015, net carrying amount</b>	<b>491,015</b>	<b>104,184</b>	<b>64,219</b>	<b>327</b>	<b>14,727</b>	<b>674,472</b>	<b>15,996</b>	<b>690,468</b>
Additions								
- Cost	1,120	10,655	-	379	123,282	135,436	65	135,501
- Accumulated depreciation	-	(101)	-	-	-	(101)	(65)	(166)
Impairment								
- Cost	-	(19,039)	-	-	-	(19,039)	-	(19,039)
- Accumulated depreciation	-	18,993	-	-	-	18,993	-	18,993
Transfers								
- Cost	49	87	-	51	(100)	87	(87)	-
- Accumulated depreciation	-	(87)	-	-	-	(87)	87	-
Depreciation for the year	(28,172)	(29,546)	-	-	-	(57,718)	(646)	(58,364)
<b>On 31 December 2015</b>	<b>464,012</b>	<b>85,146</b>	<b>64,219</b>	<b>757</b>	<b>137,909</b>	<b>752,043</b>	<b>15,350</b>	<b>767,393</b>
<b>On 31 December 2015</b>								
Cost	806,162	519,285	64,219	757	137,909	1,528,332	34,129	1,562,461
Accumulated depreciation	(342,150)	(434,139)	-	-	-	(776,289)	(18,779)	(795,068)
<b>Net carrying amount</b>	<b>464,012</b>	<b>85,146</b>	<b>64,219</b>	<b>757</b>	<b>137,909</b>	<b>752,043</b>	<b>15,350</b>	<b>767,393</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***28. 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
<b>On 1 January 2016</b>								
Cost	806,162	519,285	64,219	757	137,909	1,528,332	34,129	1,562,461
Accumulated depreciation	(342,150)	(434,139)	-	-	-	(776,289)	(18,779)	(795,068)
<b>On 1 January 2016, net carrying amount</b>	<b>464,012</b>	<b>85,146</b>	<b>64,219</b>	<b>757</b>	<b>137,909</b>	<b>752,043</b>	<b>15,350</b>	<b>767,393</b>
Additions								
- Cost	1,015	37,056	-	1,736	193	40,000	-	40,000
Disposals and write-offs:								
- Cost	-	(2,366)	-	-	-	(2,366)	-	(2,366)
- Accumulated depreciation	-	2,361	-	-	-	2,361	-	2,361
Impairment of investments	-	-	-	-	(12,975)	(12,975)	-	(12,975)
Transfers								
- Cost	29	(197)	-	126	(155)	(197)	197	-
- Accumulated depreciation	-	197	-	-	-	197	(197)	-
Depreciation for the year	(26,664)	(28,544)	-	-	-	(55,208)	(648)	(55,856)
<b>On 31 December 2016</b>	<b>438,392</b>	<b>93,653</b>	<b>64,219</b>	<b>2,619</b>	<b>124,972</b>	<b>723,855</b>	<b>14,702</b>	<b>738,557</b>
<b>On 31 December 2016</b>								
Cost	807,206	553,778	64,219	2,619	124,972	1,552,794	34,326	1,587,120
Accumulated depreciation	(368,814)	(460,125)	-	-	-	(828,939)	(19,624)	(848,563)
<b>Net carrying amount</b>	<b>438,392</b>	<b>93,653</b>	<b>64,219</b>	<b>2,619</b>	<b>124,972</b>	<b>723,855</b>	<b>14,702</b>	<b>738,557</b>

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

As a part of the reforms of the payment system, in 2001, the National Bank took over the function for supplying cash from the former Payment Operations Bureau (POB), and a part of the buildings, equipment and the furniture of the POB related to such function in ten towns throughout Macedonia. 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. The National Bank made capital improvements shown as a part of assets under construction. In 2016, the National Bank Council made several decisions allowing the National Bank to rent the facilities it received from the POB to public and private institutions. Since the buildings are no longer used for the purpose for which they were taken over, in 2016, the National Bank recorded an impairment of MKD 12,975 thousand (Note 15) on capital improvements shown as part of assets under construction.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***28. Property and equipment (Continued)**

In 2013, the Government of the Republic of Macedonia made a decision to give the National Bank a right of permanent use of land owned by the Republic of Macedonia. The land is not recorded in the books of the National Bank. This land is intended for constructing a new office building of the National Bank (Note 47b).

As at 31 of December 2016 and 2015, the National Bank has no pledged property and equipment.

**29. Intangible assets**

	<b>2016</b>	<b>2015</b>
<b>At 1 January</b>		
Cost	195,322	209,556
Assets under construction	5,555	6,578
Accumulated amortization	(174,428)	(176,794)
<b>Net carrying amount</b>	<b>26,449</b>	<b>39,340</b>
Additions		
-Cost	13,215	5,740
-Accumulated amortization	-	(2,593)
Amortization charge	(13,366)	(15,015)
Assets under construction	(67)	67
Impairment of assets under construction - intangible assets	-	(1,090)
Disposals (write-offs)		
- cost	-	(19,974)
- accumulated amortization	-	19,974
<b>At 31 December</b>	<b>26,231</b>	<b>26,449</b>
<b>At 31 December</b>		
Cost	208,537	195,322
Assets under construction	5,488	5,555
Accumulated amortization	(187,794)	(174,428)
<b>Net carrying amount</b>	<b>26,231</b>	<b>26,449</b>

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

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

#### **30. Coins from precious metals**

Coins from precious metals include jubilee coins and collector coins.

The jubilee coins are gold and silver coins which, as defined by the decision of the Government of the Republic of Macedonia, were manufactured for the purposes of celebrating jubilees relevant to the country. In April 2015, the Government of the Republic of Macedonia made a decision to convert part of the gold jubilee coins into monetary gold. In October 2016, the National Bank melted 6,651 gold coins with an aim of getting monetary gold.

As at 31 December 2016, the National Bank held a total of 187 gold coins and 27 silver coins (2015: 6,838 gold coins and 27 silver coins).

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

The National Bank purchases a certain quantity of the issue of collector coins for sale and distribution in the territory of the Republic of Macedonia. In 2016, the National Bank started selling collector coins through commission. As at 31 December 2016, the National Bank held a stock of 612 pieces of collector coins (2015: 671 pieces).

#### **31. Operating receivables**

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

	<b>2016</b>	<b>2015</b>
Fees	32,454	26,596
Receivables for maintenance of premises	2,293	1,712
Other receivables	405,436	405,355
Impairment of other receivables	(405,436)	(405,355)
<b>Total</b>	<b>34,747</b>	<b>28,308</b>

The movements in impairment of other receivables are as follows:

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***31. Operating receivables (Continued)**

	<b>2016</b>	<b>2015</b>
<b>Balance as at 1 January</b>	<b>405,355</b>	<b>418,310</b>
Increase/Release of impairment of operating receivables (Note 15)	69	(10,508)
Increase/Release of impairment of interest income (Note 15)	5	(2,450)
Increase of doubtful receivables	7	3
<b>Balance as at 31 December</b>	<b>405,436</b>	<b>405,355</b>

**32. Other assets**

	<b>2016</b>	<b>2015</b>
Office and other materials	61,974	60,722
Prepaid expenses for printing banknotes	188,266	133,081
Other accrued expenses	4,256	4,366
Other assets	601	620
Foreclosed assets for uncollected receivables (Note 26)	62,345	61,297
Impairment on foreclosed assets for uncollected receivables (Note 26)	(62,345)	(61,297)
<b>Total</b>	<b>255,097</b>	<b>198,789</b>
Current	193,123	138,067
Non-current	61,974	60,722

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***33. Currency in circulation**

Currency in circulation comprises the following:

MKD	Nominal value	2016		2015	
		Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Currency in circulation					
Banknotes	10	23,098,587	230,986	27,340,268	273,403
Banknotes	50	2,992,385	149,619	3,769,383	188,469
Banknotes	100	15,414,045	1,541,405	14,458,996	1,445,900
Banknotes	200	124,643	24,929	-	-
Banknotes	500	10,447,080	5,223,540	10,317,469	5,158,734
Banknotes	1000	25,598,903	25,598,903	23,644,134	23,644,134
Banknotes	2000	182,228	364,456	-	-
Banknotes	5000	25,518	127,590	60,886	304,430
Coins	0.5	3,944,438	1,972	3,941,198	1,971
Coins	1	93,013,433	93,013	88,645,335	88,645
Coins	2	59,910,469	119,821	57,315,423	114,631
Coins	5	34,004,011	170,020	33,542,323	167,712
Coins	10	36,408,109	364,081	25,962,756	259,628
Coins	50	8,285,355	414,268	6,007,988	300,399
Currency in circulation - Collector coins					
Coins	10	66,413	664	45,233	452
Coins	100	42,271	4,227	22,152	2,215
Coins	1000	547	547	239	239
<b>Total currency in circulation</b>			<b>34,430,041</b>		<b>31,950,962</b>

In December 2016, the National Bank put into circulation new banknotes in denominations of 200 and 2000 denars. Also, in December 2016, the National Bank made a decision according to which the banknotes in denomination of 5000 denars are no longer considered a legal tender.

**34. Bank deposits**

	2016	2015
Bank deposits in MKD	17,791,545	16,506,620
Bank deposit facilities in MKD with the National Bank	13,305,638	8,921,222
Bank deposit in foreign currency	4,580,889	-
<b>Total</b>	<b>35,678,072</b>	<b>25,427,842</b>
Current	35,678,072	25,427,842

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

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

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

#### **34. Bank deposits (Continued)**

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

The interest rate on overnight deposit was 0.25% p.a. in 2016 (2015: 0.5% p.a. in January and February 2015, while in the period between March and December 2015, the interest rate was 0.25% p.a.). The interest rate on 7-day deposit was 0.50% p.a. (2015: 1% p.a. for January and February 2015, and 0.5% p.a. for the period between March and December 2015). Seven-day deposit include accrued interest of MKD 638 thousand (2015: MKD 223 thousand).

In May 2016, the National Bank made a decision to reactivate the placement of banks' foreign currency deposits with the National Bank, which allows banks to place foreign currency deposits with the central bank. The bank foreign currency deposits include accrued interest of MKD 539 thousand (2015: N/A).

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

	<b>2016</b>	<b>2015</b>
Banks' foreign exchange reserve requirement	14,078,656	13,259,751
Savings houses' MKD reserve requirement	21,612	21,006
<b>Total</b>	<b>14,100,268</b>	<b>13,280,757</b>
Current	14,100,268	13,280,757

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

#### **36. National Bank bills issued**

In 2016, the National Bank used a tender with limited volume and fixed interest rate. The interest rate in the period January – April 2016 was 3.25%, in the period May – November 2016 it was 4%, whilst in December 2016 it was 3.75% p.a. (2015: the National Bank used a tender with limited volume and fixed interest rate of 3.25% p.a.).

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

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

#### **36. National Bank bills issued (Continued)**

As of 31 December 2016, the accrued interest on National Bank bills amounted to MKD 40,585 thousand (2015: MKD 33,845 thousand).

#### **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.

	<b>2016</b>	<b>2015</b>
Single Treasury account	13,178,051	10,623,201
Other MKD deposits	777,101	721,046
<b>Total</b>	<b>13,955,152</b>	<b>11,344,247</b>
Current	13,955,152	11,344,247

In 2016, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1% p.a. (2015: 1% p.a.). Government deposits include the accrued interest in the amount of MKD 10,289 thousand (2015: MKD 9,229 thousand).

#### **38. Government foreign currency deposits**

As specified by the Law on the National Bank of the Republic of Macedonia and the Law on the Foreign Exchange Operations, the National Bank is an agent of the government for performing international payment operations. The Central Government bodies and part of the public funds deposit their foreign currency inflows on foreign exchange accounts with the National Bank, only if the opening of such account is formally approved by the Ministry of Finance. As of 31 December 2016, these deposits amounted to MKD 21,662,311 thousand (2015: MKD 17,392,904 thousand). In 2016, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7% p.a. (2015: 0.7% p.a.).

#### **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 2016, the balance of the restricted deposits was MKD 562,320 thousands (2015: MKD 386,317 thousands).



## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

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

#### **40. Payables to IMF**

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

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

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

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

Total liability of the Republic of Macedonia for the SDR allocation at the end of 2016 amounted to SDR 65,616,876 (2015: SDR 65,616,876). According to the IMF's Articles of Agreement, the liability for the SDR allocation falls due only in the case and in the amount of the cancelled SDR allocation, which requires a decision of the Council of IMF Governors, with 85% majority of votes, or in the case of canceling the participation in the IMF's SDR Department.

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

b) Borrowings from IMF – on behalf and for the account of Government

In January 2011, the IMF approved the Precautionary Credit Line in the amount of SDR 413,400,000 or 600% of the quota of the Republic of Macedonia for membership in the IMF, as a support for the budget of the Republic Macedonia. In March 2011, the Ministry of Finance drew down SDR 197,000,000 from the approved Precautionary Credit Line. The Ministry of Finance made repayments of the principal amount of the Precautionary Credit Line which matured during 2014 in the total amount of SDR 73,875,000. In February 2015, the Ministry of Finance made early repayment of the remaining balance of the Precautionary Credit Line in the amount of 123,125,000 SDR.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***40. Payables to IMF (Continued)**

c) Payables based on membership and deposits (Note 24):

	<b>2016</b>	<b>2015</b>
Liabilities based on issued promissory note for membership in the IMF	10,774,776	5,408,482
Liabilities based on account 1	27,004	13,555
Liabilities based on account 2	156	160
<b>Total</b>	<b>10,801,936</b>	<b>5,422,197</b>
Current	10,801,936	5,422,197

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 the Republic of Macedonia for IMF membership in 2016 increased from 68.9 million Special Drawing Rights (SDR) to 140.3 million Special Drawing Rights (SDR). The National Bank, as a fiscal agent of the Republic of Macedonia, has issued promissory notes for membership in the IMF.

**41. Other deposits**

	<b>2016</b>	<b>2015</b>
Liabilities based on MKD deposits to other domestic entities	1,141,549	154,808
Liabilities based on MKD deposits to international financial institutions	10,998	16,256
<b>Total</b>	<b>1,152,547</b>	<b>171,064</b>
Current	1,152,547	171,064

Liabilities based on MKD deposits to other domestic entities comprise client accounts of brokerage houses and banks, the Central Securities Depository account, and the Deposit Insurance Fund account. The brokerage houses client accounts and the Central Securities Depository account are settlement accounts arising from securities transactions. The National Bank does not pay any interest on these deposits. The account of the Deposit Insurance Fund is maintained at the National Bank as required by the Deposit Insurance Law. The National Bank pays interest to the Deposit Insurance Fund account of 0.2% p. a. (2015: 0.2% p. a.).

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

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2016**

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

#### **42. Other payables**

Payables are analyzed as follows:

	<b>2016</b>	<b>2015</b>
Liabilities based on BNT bankruptcy	144,937	145,027
Payables on allocation of net income	63,900	64,997
Payables on annuities received from sale of socially-owned flats	-	2,189
Tax liabilities	1,471	1,380
Other payables	26,831	34,349
<b>Total</b>	<b>237,139</b>	<b>247,942</b>

Payables on the bankruptcy of the Bank for Foreign Trade (BNT) pertain to inherited payables of the National Bank on households' deposits present at the moment when the bank was declared bankrupt in 1995, in the amount of MKD 292,442 thousand. For the purpose of settling liabilities, the National Bank received certain property from the bankruptcy estate of the BNT that was immediately transferred to the Government of the Republic of Macedonia without any compensation.

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

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

#### **43. Provisions**

The National Bank allocates provisions for potential liabilities based on litigations to the amount of principal and interest the National Bank is expected to be obliged to pay out to private entities and individuals who instituted proceedings against the National Bank.

During 2015, the National Bank released the provision and written off the provisions for potential liabilities based on litigations for legal entities and individuals.

The movement of provisions for potential liabilities based on litigations is shown below:

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***43. Provisions (Continued)**

	<b>2016</b>	<b>2015</b>
<b>As of January 1st</b>	-	<b>1,730</b>
Release of provisions for potential liabilities based on litigations with private entities and individuals (Note 15)	-	(715)
Reduction of the Special reserves for contingent liabilities based on litigations with private entities	-	(1,015)
<b>As of December 31st</b>	-	-

**44. Other liabilities**

	<b>2016</b>	<b>2015</b>
Deposited funds from confiscated foreign currencies and deposited guarantees	392,984	529,898
Jubilee coins counterpart	4,402	105,800
Liabilities to suppliers and other liabilities	101,452	17,138
Deferred income	5,487	4,658
<b>Total</b>	<b>504,325</b>	<b>657,494</b>

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

The counterpart of the jubilee coins has been decreased as a result of the melting of the jubilee gold coins and distribution of unrealized positive price differences in other reserves of monetary gold (Note 45), according to the accounting policy for jubilee coins (Notes 2P and 30).

**45. Capital and reserves***Capital*

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2016, it amounted to MKD 1,289,789 thousand (2015: MKD 1,289,789 thousand).

## NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

### Notes to the Financial Statements for the year ended 31 December 2016

(Amounts expressed in thousands of MKD unless otherwise stated)

#### 45. Capital and reserves (Continued)

##### *General and special reserves*

As stipulated by the Law on the National Bank and following the allocation of unrealized gains to the other reserves<sup>9</sup>, 70% of the distributable earnings are transferred to the general reserves until the level of the capital of the National Bank is reached. After the capital is reached, 15% of the remaining income is transferred to the general reserves, while the remaining share is transferred to the Budget of the Republic of Macedonia. In case of a special reserve account<sup>10</sup>, distributable earnings shall be distributed so that up to 70% shall be transferred to the special reserves account until reaching the amount set by the National Bank Council to cover costs for previously planned purposes, and 70% of the remainder shall be allocated to general reserves until reaching the level of core capital or 15% after reaching the level of core capital. The general reserves are utilized to cover the general risks related to the National Bank operations. In 2015, the National Bank opened a special account for building of new business premises.

	2016	2015
General reserves	1,309,305	1,298,029
Special reserves	445,956	270,544

##### *Other reserves*

	2016	2015
Other reserves from unrealized price and exchange rate differences		
- Other reserves from foreign exchange gains	7,492,842	6,815,284
- Other reserves from price and exchange rate differences of gold	6,939,255	5,900,767
- Other reserves from price differences of securities held for trading and derivatives	116,891	57,654
<b>Total</b>	<b>14,548,988</b>	<b>12,773,705</b>

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

<sup>9</sup> Defined as revaluation reserve accounts in the Law on the National Bank of the Republic of Macedonia

<sup>10</sup> Defined as special reserve account in the Law on the National Bank of the Republic of Macedonia

**45. Capital and reserves (Continued)**

*Other reserves (Continued)*

Other reserves from foreign exchange gains from foreign exchange assets and liabilities for 2016 are increased by MKD 677,558 thousand (2015: MKD 2,862,284 thousand increased on the basis of net unrealized positive foreign exchange differences).

Other reserves from price and exchange rate differences of gold for 2016 are increased by MKD 1,038,488 thousand from which:

- MKD 1,615,498 thousand as a result of the allocation of the net unrealized positive price and foreign exchange differences of gold (2015: decrease for settling the net unrealized negative price and exchange rate differences of gold in the amount of MKD 387,693 thousand);
- MKD 95,422 thousand as a result of allocation of net unrealized positive price differences of jubilee coins; and
- MKD 672,432 thousand as a result of realized exchange rate and price differences from transactions in gold during 2016, which were added to the distributable earnings in the current 2016 (2015: MKD 506,800 thousand).

Other reserves from price differences of securities and derivatives held for trading for 2016 are increased on a net basis by MKD 59,237 thousands from which:

- Increase on the basis of allocation of the net unrealized positive price differences of securities held for trading on security-by-security basis in the amount of MKD 65,113 thousand (2015: increase of MKD 30,253 thousand due to the allocation of the net unrealized positive price differences of trading securities on security-by-security basis, and decrease of MKD 2,579 thousand for settling the unrealized negative price differences from securities);
- Increase of MKD 2,137 thousand on the basis of allocation of the net unrealized positive price differences from derivatives – futures contracts; and
- Decrease on the basis of realized price differences from securities in the amount of MKD 8,013 thousand that were added to the distributable earnings for the current 2016 (2015: MKD 36,937 thousand).

Other reserves from art works and library fund as of 31 of December 2016 amounted to MKD 3,071 thousand (2015: MKD 1,777 thousand). The increase in other reserves of MKD 1,294 thousand is a result of the books donated to the National Bank's library fund.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2016***(Amounts expressed in thousands of MKD unless otherwise stated)***46. Cash and cash equivalents**

	<b>2016</b>	<b>2015</b>
Foreign currencies (Note 16)	361,946	385,096
Foreign currency deposits (Note 17)	14,647,053	13,802,636
Special Drawing Rights (Note 21)	291,521	295,023
<b>Total</b>	<b>15,300,520</b>	<b>14,482,755</b>

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

The National Bank is a defendant in several legal proceedings arising from its operations. The National Bank contests these claims and based on legal advice considers that no significant material liabilities will be incurred.

**b) Commitments**

In October 2016, the National Bank concluded a contract for construction works on the new office building. According to the contract, the National Bank has commitments in the amount of MKD 1,477,332 thousand, which are expected to be settled in the next 3 years.

**48. Related parties transactions**

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

**49. 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.