NLB Banka AD Skopje

Financial statements prepared in accordance with International Financial Reporting Standards For the year ended 31 December 2021

With the Report of the Auditors thereon

Content

Building a better
working world

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Independent auditor's report to the shareholders of NLB Banka AD Skopje

We have audited the accompanying financial statements of NLB Banka AD Skopje ("the Bank"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) accepted in the Republic of North Macedonia and published in the Official Gazette no. 79 dated 11 June 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

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

Vladimir Sokolovski

General Manager

Vladimir Sokolovski

Certified Auditor

Ernst & Young Certified Auditors Ltd.

Skopje, 05 April 2022

Income statement

	Notes	2021	2020
Interest income calculated using the effective interest method	4	3,417,619	3,381,431
Interest expense calculated using the effective interest method		(290,304)	(393,323)
Other interest and similar expense		(22,478)	(19,046)
Interest and similar expense	4	(312,782)	(412,369)
Net interest income		**3,104,837**	**2,969,062**
Dividend income	5	1,057	4,264
Fee and commission income	6	1,995,473	1,651,562
Fee and commission expense	6	(1,020,480)	(725,505)
Net fee and commission income		**974,993**	**926,057**
Net gains/(losses) on financial instruments held for trading	7	277,954	151,713
Net foreign exchange gain/(loss)	8	(7,588)	43,430
Net gains/(losses) on derecognition of assets	9	2,717	6,080
Other operating income	10	69,287	74,929
Other operating expenses	11	(195,770)	(178,657)
Personnel expenses	12	(895,614)	(843,921)
General and administrative expenses	13	(568,927)	(531,107)
Depreciation and amortisation expense	14	(298,889)	(259,538)
Gains less losses from modification	15	(10,819)	(132,400)
Provisions for credit losses	16	(66,332)	26,528
Provisions for other liabilities and charges	16	(2,390)	-
Impairment of financial assets	17	294,519	(961,552)
Impairment of non-financial assets	17	(25,869)	(13,101)
Profit before income tax		**2,653,166**	**1,281,787**
Income tax expense	18	(249,774)	(96,571)
Profit for the year		**2,403,392**	**1,185,216**
Basic and diluted earnings per share (in MKD)	43	**2,814**	**1,388**

These financial statements have been approved by the Management board on 24.03.2022 and signed on its behalf by:

НЛБ Банка АД Скопје NLB

Igor Davchevski Member of the Management board	Günter Fried Member of the Management board	Peter Zelen Member of the Management board	Branko Greganović President of the Management board

The notes are an integral part of these financial statements

Statement of comprehensive income

	Notes	2021	2020
Net profit for the year		**2,403,392**	**1,185,216**
Other comprehensive income to be reclassified to income statement in subsequent periods:			
- debt instrument measured at fair value through other comprehensive income	42	(142,185)	82,593
Other comprehensive income that will not be reclassified to income statement in subsequent periods:			
- fair value changes of equity instruments measured at fair value through other comprehensive income	42	92,112	2
- actuarial gains/(losses)	42	(2,344)	(253)
Other comprehensive income/(loss) for the year, net of tax		**(52,417)**	**82,342**
Total comprehensive income for the year		**2,350,975**	**1,267,558**

These financial statements have been approved by the Management board on 24.03.2022 and signed on its behalf by:

Igor Davchevski
Member of the
Management board

Günter Friedl
Member of the
Management board

Peter Zelen
Member of the
Management board

Branko Greganović
President of the
Management board

Statement of financial position

	Notes	31.12.2021	31.12.2020
Assets			
Cash, cash balances at central bank and demand deposits at banks	19	15,118,573	13,320,855
Financial assets measured at fair value through other comprehensive income	20	7,173,951	5,365,363
Financial assets measured at amortised cost	21		
- debt securities	22	12,827,964	12,585,703
- loans and advances to banks	23	2,812,159	3,066,661
- loans and advances to customers	24	66,708,081	58,906,151
- other financial assets	25	1,519,621	1,527,084
Foreclosed collateral	27	246,951	265,477
Investment property	28	95,975	103,011
Property, equipment and right-of-use assets	29	2,082,140	2,111,115
Intangible assets	30	312,448	278,154
Current income tax assets		-	30,924
Other assets	32	54,512	48,136
Total assets		**108,952,375**	**97,608,634**
Liabilities			
Financial liabilities measured at amortised cost	33		
- deposits from banks	34	392,740	371,319
- deposits from customers	35	86,117,723	79,336,725
- other borrowed funds	36	1,518,935	422,376
- subordinated liabilities	37	2,768,342	1,848,018
- other financial liabilities	38	2,354,678	884,466
Provisions	39	416,709	345,139
Current income tax liabilities		78,730	-
Deferred income tax liabilities	18	102,924	79,221
Other liabilities	40	232,326	176,870
Total liabilities		**93,983,107**	**83,464,134**
Equity			
Capital and reserves attributable to equity holders			
Share capital	42	854,061	854,061
Share premium	42	2,274,484	2,274,484
Revaluation reserve	42	59,598	112,015
Retained earnings		4,811,226	5,604,377
Other reserves		6,969,899	5,299,563
Total equity		**14,969,268**	**14,144,500**
Total liabilities and equity		**108,952,375**	**97,608,634**

These financial statements have been approved by the Management board on 24.03.2022 and signed on its behalf by:

Igor Davchevski Member of the Management board	Günter Friedl Member of the Management board	Peter Zelen Member of the Management board	Branko Greganovic President of the Management board

Statement of changes in equity

	Share capital	Share premium	Revaluation reserve	Retained earnings	Other reserves	Total equity
Balance as at 1 January 2020	**854,061**	**2,274,484**	**29,673**	**4,419,161**	**5,299,563**	**12,876,942**
Net profit for the year	-	-	-	1,185,216	-	1,185,216
Other comprehensive income	-	-	82,342	-	-	82,342
Total comprehensive income	**-**	**-**	**82,342**	**1,185,216**	**-**	**1,267,558**
Dividends	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	-	-	-
Balance as at 31 December 2020	**854,061**	**2,274,484**	**112,015**	**5,604,377**	**5,299,563**	**14,144,500**
						-
Balance as at 01 January 2021	**854,061**	**2,274,484**	**112,015**	**5,604,377**	**5,299,563**	**14,144,500**
Net profit for the year	-	-	-	2,403,392	-	2,403,392
Other comprehensive income	-	-	(52,417)	-	-	(52,417)
Total comprehensive income	**-**	**-**	**(52,417)**	**2,403,392**	**-**	**2,350,975**
Dividends	-	-	-	(1,526,207)	-	(1,526,207)
Transfer to statutory reserve	-	-	-	(1,670,336)	1,670,336	-
Balance as at 31 December 2021	**854,061**	**2,274,484**	**59,598**	**4,811,226**	**6,969,899**	**14,969,268**

Detailed information is provided in note 42.

These financial statements have been approved by the Management board on 24.03.2022 and signed on its behalf by:

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Member of the
Management board

Günter Friedl
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Peter Zelen
Member of the
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Branko Greganović
President of the
Management board

Statement of cash flows

	2021	2020
Cash flows from operating activities		
Interest received	3,453,488	2,808,417
Interest paid	(348,179)	(445,570)
Dividends received	1,057	4,264
Fee and commission receipts	1,993,737	1,632,658
Fee and commission payments	(1,020,481)	(725,505)
Net gain/(losses) from financial assets and financial liabilities held for trading	277,149	151,252
Payments to employees and suppliers	(1,499,080)	(1,335,890)
Receipts from operating income	156,766	82,566
Payments for operating expenses	(195,818)	(213,682)
Cash flow from operating activities before changes in operating assets and liabilities	**2,818,639**	**1,958,510**
(Increase) / decrease in operating assets	**(8,603,805)**	**(5,090,309)**
Net (increase)/decrease in fin.assets measured at fair value through other comprehensive income	(1,783,148)	(1,450,816)
Net (increase)/decrease in loans and receivables	(6,840,242)	(3,396,126)
Net (increase)/decrease in other financial assets	14,901	(251,339)
Net (increase)/decrease in other assets	4,684	7,972
Increase/(decrease) in operating liabilities	**7,663,241**	**6,665,840**
Net increase/(decrease) in liabilities measured at amortised cost	7,576,087	6,901,168
Net increase/(decrease) in other financial liabilities	156,379	(168,671)
Net increase/(decrease) in other liabilities	4,414	3,748
Payments of lease liabilities	(73,639)	(70,405)
Cash flows from operating activities	**1,878,075**	**3,534,041**
Income taxes (paid)	(116,417)	(166,034)
Net cash flow from operating activities	**1,761,658**	**3,368,007**
Cash flows from investing activities		
Receipts from investing activities	**4,574,317**	**3,667,630**
Receipts from sale of tangible assets and investment properties	445	1,754
Receipts from derecognition of debt instruments measured at amortised cost	4,573,872	3,665,876
Cash payments on investing activities	**(4,956,390)**	**(7,787,923)**
Cash payments to acquire tangible assets and inestment properties	(125,259)	(138,131)
Cash payments to acquire intangible assets	(60,897)	(98,658)
Cash payments to acquire debt instruments measured at amortised cost	(4,770,234)	(7,551,134)
Net cash from investing activities	**(382,073)**	**(4,120,293)**

Statement of cash flows (continued)

	2021	2020
Cash flows from financing activities		
Cash proceeds from financing activities	**924,345**	**-**
Cash proceeds from subordinated liab.issued	924,345	-
Cash payments on financing activities	**(193,739)**	**-**
Dividends paid	(193,739)	-
Net cash flow from financing activities	**730,606**	**-**
Net increase/(decrease) in cash and cash equivalents	**2,110,191**	**(752,286)**
Cash and cash equivalents at beginning of the year	**17,609,708**	**18,361,994**
Cash and cash equivalents at end of the year	**19,719,899**	**17,609,708**

These financial statements have been approved by the Management board on 24.03.2022 and signed on its behalf by:

Igor Davchevski
Member of the
Management board

Günter Friedl
Member of the
Management board

Peter Zelen
Member of the
Management board

Branko Greganović
President of the
Management board

НЛБ Банка АД Скопје NLB

Cash and cash equivalents

For the cash flow purposes, cash, as well as the cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	Note	2021	2020
Cash, cash balances at central bank and demand deposits at banks	19	15,123,406	13,329,009
Financial assets measured at fair value through other comprehensive income	20	1,725,827	1,692,984
Loans and advances to banks with original maturity up to 3 months	23	2,741,683	2,468,576
Deposits with maturity up to 3 months in other financial companies	24	128,983	119,139
Total		**19,719,899**	**17,609,708**

The item “Cash, cash balances at central bank and demand deposits at banks” in the table above is presented as gross amount, while the corresponding item in the statement of financial position includes allowance for impairment of cash and cash equivalents in amount of MKD 4,833 thousands (2020: MKD 8,154 thousands).

1. General information

1.1 Introduction

NLB Banka AD Skopje (hereinafter: “the Bank”) is a joint stock company incorporated and domiciled in the Republic of North Macedonia (hereinafter: “RNM”). The Bank is a subsidiary of Nova Ljubljanska banka d.d. Ljubljana (hereinafter: “NLB d.d.”), which controls 86.97% (2020: 86.97%) of the voting shares of the Bank.

As at 31 December 2021, the largest shareholder of NLB d.d. with significant influence is the Republic of Slovenia, owning 25% plus one share (31 December 2020: 25% plus one share).

The shares of the Bank are listed on the official market of the Macedonian Stock Exchange AD Skopje on the sub-segment Mandatory quotation - ordinary shares registered under ISIN: "MKTNBA101019”.

The address of the registered office of NLB Banka AD Skopje is as follows:

St. Majka Tereza 1, p.fax. 702,
Skopje, principal Centar
1000 Skopje,
Republic of North Macedonia

The Bank is licensed to perform all banking activities in accordance with the Bank’s law. The main activities include commercial lending, receiving of deposits, foreign exchange deals, payment operation services in the country and abroad and retail banking services. In addition, it provides trade finance facilities to companies for export and import purposes.

All amounts in the financial statements and in the notes to the financial statements are expressed in thousands of denars unless otherwise stated.

These financial statements have been approved for issue by the Supervisory Board on 31.03.2022.

1 General information (continued)

1.1 Introduction (continued)

Managers

The names of the members of the Management Board and divisions managers of the Bank serving during the financial year and to the date of this report are as follows:

President of Management Board (till 31 December 2021)	Antonio Argir
Member of Management Board	Peter Zelen
Member of Management Board	Günter Friedl
Member of Management Board	Igor Davchevski
Assistant of the Management Board (from 1 November 2021, while from 1 January 2022 Branko Greganović is president of Management Board)	Branko Greganović
Manager of Financial Market and Treasury Division	Ljubica Janchevska Dimitrovska
Manager of Financial Management Division	Donka Markovska
Manager of Cash Services and Depot Division	Marija Zafirovska
Manager of Internal Audit Division	Anita Boshkova
Manager of Sales Logistics Division	Slagjana Beleva
Manager of Sales Network Division	Maja Stavreva Stojanova
Manager of Non-performing Loans and Intensive Care Division	Zoran Grncharovski
Manager of Information Technology Division	Igor Mitrovski
Manager of Corporate Clients Division	Biljana Stepanuleska Pocevska
Manager of Risk, Evaluation and Control Division (from 1 March 2021)	Sanja Churilov
Manager of Credit Risk Division (from 1 March 2021)	Ana Narashanova
Manager of Legal ans Secretariat Division	Violeta Janeva
Manager of Bank Logistic Division	Igor Kacarski
Manager of Credit Analysis and Administration Division	Boban Popevski
Manager of Offer Development and Marketing Division	Ljupka Gjorgjievska
Manager of Human Resources Management Center (from 1 March 2021)	Dejan Madzoski

1.2 Operating environment of the Bank

After the global economy has recorded a significant economic decline due to the negative effects of the health crisis situation in 2020, it started to grow in 2021 and the expectations are that the growth will continue in 2022. The Macedonian economy in 2021 continued to be affected by the uncertainty present since 2020 alongside the risk related to the development of the Covid-19 pandemic and its duration. Numerous sectors and activities were affected by the health and economic consequences of the pandemic, especially in the first quarter of the year. Full recovery and compensation of economic losses is expected during 2022. However, the strength of the recovery will depend on vaccination progress and government capacities to manage increased budget deficit, public debt and stimulate new investment cycle in public and private segment. According to the macroeconomic projections of the National Bank, the implementation of the monetary policy in the period 2021-2023 would take place in an environment of pronounced uncertainty.

1 General information (continued)

1.2 Operating environment of the Bank (continued)

The immediate monetary policy reaction by the National Bank and the coherent macroeconomic and fiscal policy is a reason that credit rating agency Standard & Poor's affirmed BB-/B sovereign credit rating of North Macedonia with a stable outlook in August 2021. Additional, in November 2021, Fitch Rating affirmed North Macedonia's Long-term Default Rating at BB+ with a Negative Outlook, emphasizing that the confirmed rating in conditions of a pandemic is a result of the implementation of governance policies, human capital development, as well as credible and coherent macroeconomic and financial policies consistent with long maintained fixed exchange rate.

The Gross Domestic Product (GDP) growth rate in Q4 2021 was 2.3%, and 4.2% for Y2021. The growth in Q4 2021 is a result of decline in the Manufacturing by 4.8%, Mining and quarrying; Manufacturing; Electricity, gas, steam and air conditioning supply; etc by 3.6%, Agriculture, forestry and fishing by 4.6% and Construction 9.9%. Sectors that have shown increase: Wholesale and Retail trade, Transportation and storage, Accommodation and food service activities by 9.2%, Arts, entertainment and recreation by 0.4%, Information and communication by 5.3%, Financial and insurance activities by 1.7% and Human health and social work activities by 1.6%. Household consumption increased by 5.7% YoY and Public consumption increased by 6.5%. Gross investments increase by 21.2%.

The world economy has begun to recover from the Covid-19 pandemic, global supply chain disruptions and price pressures, and now it is facing a new challenge - the Russia-Ukraine conflict. The start of the crisis had an impact on global energy and food markets and investors.
Economy of North Macedonia is expected to have indirect consequences through the eurozone economy.

Hardest economic hit concentrated in January and February, was seen through the double-digit decline in industrial production (-13.5% and -12.2%), in retail sales and in foreign trade. The cumulative Industrial production in November 2021 is 2.1% higher compared to the same period last year mostly due to the increase of the Manufacturing sector (5.4%).

Unemployment rate continued to fall to historical low of 15.7% in Q3 2021 (16.1% in Q4 2020).

The average inflation rate measured by the cost of living till December 2021 was 3.2% (2020: 1.2%), while the average retail price index rate increased by 4.3%.
The exchange rate Denar/Euro remained relatively stable, without significant fluctuations, due to the continuous maintenance of high amount of foreign exchange reserves.

The interest rate on treasury bills in 2021 was reduced by National Bank, from 1.50% to 1.25% in March 2021 which is a historical low rate whereas the amount offered decreased from MKD 25 billion to MKD 10 billion, contributing to the increase of the liquidity of the banking system and support of the credit flows in the economy.

Credit growth till Q3 2021 reached 6.6% increase compared to the same period last year, led by the individuals' sector which increased by 7.9%, while corporate loans increased by 5.1% compared to the same period last year. Deposits from non-banking sector in Q3 2021 increased by 9.2% compared to the same period last year, out of which deposits from individuals increased by 6.7% and corporate deposits grew by 15.5%.

Despite the Covid-19 crisis, quality of credit portfolio has improved with share of non-performing loans (NPL) of 3.5% in Q3 2021 (Q3 2020: 3.3%). Households sector NPLs increased to 2.2% in Q3 2021 (1.6% in Q3 2020), while the corporate sector NPLs decreased to 5.0% (Q3 2020:5.3%). Profit before tax of the banking sector in Q3 2021 increased by 22.1% compared to the same period in 2020.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for changes in accounting policies resulting from application of new standards or changes to standards.

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements are comprised of: the income statement and statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, significant accounting policies and the notes to the financial statements.

2.2 Basis for preparation and presenting the financial statements

The Bank presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 3.3.4.

The financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the assets measured at fair value through other comprehensive income, derivative assets and liabilities, foreclosed collateral and investment property, which are recognised at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.27.

2.3 Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed in comparative amounts. Where IAS 8 applies, comparative figures have been adjusted to conform to the changes in presentation in the current year.

Compared to the presentation of the financial statements for the year ended 31 December 2020, the scheme for presentation of the Statement of financial position is changed. Comparative amounts have been adjusted to reflect these changes in presentation.

31.12.2020	Old presentation	Current presentation	Change
Other financial liabilities	128,075	-	(128,075)
Other liabilities	-	128,075	128,075

Liabilities for salaries and liabilities for unused annual leaves are recognised under the item "Other liabilities" and before change those liabilities were disclosed under the item "Other financial liabilities".

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the average exchange rates prevailing at the dates of the transactions according to exchange rate list of the National Bank of Republic of North Macedonia (hereinafter: "NBRNM"). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences resulting from changes in the amortised cost of monetary items denominated in foreign currency or financial assets measured at fair value through other comprehensive income are recognised in the income statement.

Translation differences on non-monetary items, such as investments in equities classified as financial assets measured at fair value through other comprehensive income are included together with revaluation reserves in the valuation (losses)/gains taken to other comprehensive income and accumulated in the equity.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as gains less losses from financial assets and liabilities held for trading.

The foreign currencies the Bank deals with, are predominantly Euro (EUR), United States Dollar (USD) and the Swiss franc (CHF). The exchange rates used for translation at 31 December 2021 and 31 December 2020 were as follows:

	2021	**2020**
	MKD	**MKD**
1 EUR	61.63	61.69
1 USD	54.37	50.24
1 CHF	59.47	56.82

2.5 Interest income and expense

Interest income and expenses for all financial instruments measured at amortised cost, and financial assets measured at fair value through other comprehensive income are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest method. Interest income on all trading assets and financial assets mandatorily required to be measured at fair value through profit or loss is recognised using the contractual interest rate. The effective interest method is used to calculate the amortised cost of a financial asset or financial liability, and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. Interest income includes coupons earned on fixed-yield investments and accrued discounts and premiums on securities. The calculation of the effective interest rate includes all fees and points paid or received by parties to the contract and all transaction costs but excludes future credit risk losses.

2 Summary of significant accounting policies (continued)

2.5 Interest income and expense (continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, interest income is again calculated on a gross basis.

In case of purchased or originated credit-impaired financial assets, credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition. The credit-adjusted effective interest rate is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the purchased or originated credit-impaired financial asset.

Interest income and expense includes interest expense determined by an actuarial calculation due to a change in the present value of employee benefits from the approximation to the date of payment and interest expenses for lease liabilities.

2.6 Fee and commission income and expense

Fee and commission income are recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Bank provides a service to its customers, compensation is invoiced and generally due immediately upon satisfaction of a service provided at a point in time.

Fee and commission income mainly consist of financial services performed by the Bank including the issuance of guarantees, opening of letters of credit, domestic and foreign payment operations, customer transaction accounts, commissions from transactions with traders, card settlement and ATMs, commissions from fiduciary activities, brokerage fees which are commissions from trading of securities, insurance brokerage services, as well as commissions for other services.

The Bank has generally concluded that it is the principal in its revenue arrangements, because it typically controls the services before transferring them to the customer.

IFRS 15 applies to all contracts with customers to provide services in the ordinary course of business except for those specifically excluded from its scope, which includes financial instruments within the scope of IFRS 9. Because financial instruments are outside the scope of IFRS 15, most of the Bank’s main sources of income (e.g. interest income on loans and gains on sale of investment securities) are not within the scope of the standard.

Fees and commissions that are integral to the effective interest rate of financial assets and liabilities are presented within interest income or expenses.

2.7 Dividend income

Dividends are recognised in the income statement when the Bank’s right to receive payment has been established and inflow of economic benefits is probable.

2.8 Financial instruments

a) Classification and measurement

Financial instruments are initially measured at fair value plus or minus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Subsequent measurement depends on the classification of the instrument.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

Financial assets

All debt financial assets need to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics. The measurement categories of financial assets are as follows:

- financial assets measured at amortised costs (AC);
- financial assets at fair value through other comprehensive income (FVOCI);
- financial assets held for trading (FVTPL) and
- non-trading financial assets, mandatorily at fair value through profit or loss (FVTPL).

<u>*Financial assets measured at amortised costs (AC)*</u>

Financial assets are measured at AC if they are held within a business model for the purpose of collecting contractual cash flows ("held to collect"), and if cash flows are solely payments of principal and interest (hereinafter: "SPPI") on the principal amount outstanding.

Loans and advances are financial assets that meet the SPPI requirement. They are assets with fixed or determinable payments that originate from the Bank and those purchased on a secondary market, that is, not listed on an active market.

Loans and advances to other customers include loans and advances from different clients that meet the SPPI requirement.

Loans and advances to banks include money market transactions, term deposits in banks and loans given to banks and savings houses.
Loans and advances are initially recognised when the Bank becomes party to the contractual provisions of the instrument, or when the assets are originated. Loans and advances are initially measured at cost (fair) value and subsequently are carried at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Interest income is recognised in item "Net interest income, using the effective interest method", foreign exchange gains and losses in item "Net foreign exchange gain", while impairment are recognised in item "Impairment of financial assets".

Transaction costs that are directly related to acquisition or issue are included in the initial measurement of loan and advances.

The Bank has debt securities measured at AC that are held for the purpose of collection of contractual cash flows and meet the SPPI requirement (the Bank expects cash flows at certain dates - SPPI). This category includes investments in government bonds and government bills that are not designated at the initial recognition as assets at fair value through profit or loss or as financial assets at fair value through other comprehensive income.
These financial assets are recognised in the statement of financial position at the trading date.

The Bank initially recognises debt securities at their cost, which equals the fair value plus transaction costs directly attributable to the acquisition of the asset. The transaction price is treated as the fair value of a financial asset.

After initial recognition, debt securities are measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

Financial assets at fair value through other comprehensive income (FVOCI)

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ("held to collect and sell"), and if cash flows are SPPI on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised separately in the income statement. Other net gains and losses are recognised in other comprehensive income, until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

To determine the fair value of financial assets quoted on an active market the current purchase price is used. Gains and losses arising from changes in the fair value are equal to the difference between the amortised costs and the current fair value of the asset.

The Bank derecognises financial assets when the rights under the contract for acquiring the cash flows from the financial assets expire or when the Bank has transferred the rights to cash flows from the asset by a transaction in which all the risks and rewards of ownership of the financial asset are transferred to another.

Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement, except for dividends that are recognised in the income statement. These assets are subsequently measured at fair value. Other net gains and losses are recognised in other comprehensive income and are never reclassified to the income statement.

Financial liabilities

Financial liabilities are liabilities that are:

- a contractual obligation to transfer cash or another financial asset, or to exchange financial instruments with another party, or
- an agreement that can or will be settled with the Bank's equity instruments and is a non-derivative for which the Bank is or may be obliged to submit a variable number of equity instruments or a derivative that will be, or may be, settled in any way other than by exchanging a fixed amount of cash or another financial asset for a number of equity instruments of the Bank.

The Bank should classify its financial liabilities at initial recognition in one of the following categories:

- financial liabilities that are measured at amortised cost or
- financial liabilities that are measured at fair value through the profit and loss.

The Bank measures its financial liabilities at amortised cost using the effective interest method. Interest expense, foreign exchange gains and losses and gain or loss on derecognition are recognised in profit or loss.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

Assessment of NLB Bank's business model

The Bank has determined its business model and is based on observable factors for different portfolios that best reflects how the Bank manages groups of financial assets and liabilities to achieve its business objective, such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- how the performance is monitored;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;
- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows);
- the expected frequency, value, and timing of sales;
- what are the motives and the intention to approve the financial assets / liabilities and what business objective is wanted to achieve;
- which are the income / expenses derived from the financial assets / liabilities;
- what are the future expectations of the Bank for managing the financial assets / liabilities, etc.

Based on the analysis of the assessment of the business models of the Bank, the Bank adopted the following business models:

- a business model for financial assets for the purpose of collecting contractual cash flows when lending credit exposure to banks and other clients;
- a business model for financial assets for the purpose of collecting contractual cash flows and a business model for financial assets for the purpose of collecting contractual cash flows and / or selling, for financial assets in debt securities: treasury bills, government bills and government bonds;
- a business model for equity financial assets that are measured at fair value, where changes in fair value will be recognised in revaluation reserves within the other comprehensive income;
- a business model for equity financial assets that are measured at fair value with changes in fair value recognised in revaluation reserves within the other comprehensive income for equity instruments for which there is no active market and whose ownership is determined by law or related to the possibility of using the services provided by these institutions;
- a business model for financial liabilities in order to pay the agreed cash flows for financial liabilities that include: deposits with banks and other clients, debt securities issued, loan commitments and subordinated liabilities and
- a business model for financial liabilities held for trading in which are included financial liabilities held for trading and derivatives for trading and derivative liabilities held for risk management that include derivatives for risk protection, embedded derivatives and other derivatives held for risk management.

With regard to debt securities within the "held to collect" business model, the sales which are related to the increase of the issuers' credit risk, concentrations risk, sales made close to the final maturity, or sales in order to meet liquidity needs in a stress case scenario are permitted. Other sales, which are not due to an increase in credit risk may still be consistent with a held to collect business model if such sales are incidental to the overall business model, and:

- are insignificant in value both individually and in aggregate, even when such sales are frequent;
- are infrequent even when they are significant in value.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

A review of instruments' contractual cash flow characteristics (the SPPI test)

The second step in the classification of the financial assets in portfolios being "held to collect" and "held to collect and sell" relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest must represent only the consideration for the time value of money, credit risk, other basic lending risks, and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVTPL.

The Bank reviewed the portfolio within "held to collect" and "held to collect and sale" for standardised products on a level of a product sample and for non-standardised products on a single exposure level. The Bank established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of the loan agreements.

The Bank did not identify exposures that did not pass the SPPI test and which should be measured mandatorily at fair value through profit or loss.

Accounting policy for modified financial assets

When contractual cash flows of a financial asset are modified, the Bank assesses if the terms and conditions have been modified to the extent that, substantially, it becomes a new financial asset. The following factors are, amongst others, considered when making such assessment:

- reason for modification of cash flows (commercial or client's financial difficulties);
- change in currency of the loan;
- introduction of an equity feature;
- replacement of initially agreed debtor with a new debtor that is not related party to initial debtor; and
- if the modification is such that it changes the result of the SPPI test.

Accounting policy for modified financial assets differentiates between modifications of contractual cash flows that occur from commercial reasons and those, occurring due to financial difficulties of a client. Modifications of financial assets due to commercial reasons lead to derecognition events. In relation to clients with financial difficulties, significant modifications lead to derecognition event whereas modifications that are not significant (where exposure to risks remains broadly the same) do not lead to derecognition. For the latter, the Bank recognises modification loss.

If the modification results in derecognition of a financial asset, the new financial asset is initially recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. In such cases the Bank recalculates the gross carrying amount of the financial asset and recognises modification gain or loss in the income statement. The gross carrying amount is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

2.8.1 Reclassification

Reclassification of debt financial assets from one category to another is possible only if there is a change in the business model of the Bank for managing these assets. Reclassifications are made in rare cases when the change in the business model has a significant impact on the Bank's business operations, when the change is due to a change in external or internal factors that have a significant impact on the Bank's activities and other. The decision to change the business model is made by the Bank's management. If there is a change in the business model, the Bank must reclassify all financial assets from one to the other category. In such cases, the reclassified assets continue to be measured according to the principles of the new category from that date prospectively, i.e. no adjustments are made to all previously recognised profits or losses. The reclassification takes place from the start of the reporting period following the change.
Financial liabilities shall not be reclassified. Reclassification of investment in equity instruments from one category to another is not allowed.

2.8.2 Principles of measurement

The Bank uses two types of measurement of the value of the assets and liabilities:
- principle of measurement at amortised cost and
- principle of measurement at fair value.

2.8.2.1 Principle of measurement at amortised cost

Amortised cost of a financial asset or financial liability is the amount at which the asset or liability is measured, taking into account:
- the amount at initial recognition;
- reduced for repayments of principal;
- decreased or increased by the amount of accumulated amortisation using the effective interest method, for each difference between the amount at initial recognition and the maturity amount and
- decreased for impairment.

Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument, or a shorter period (when appropriate) to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. Measurement using the effective interest method allows the depreciation of the cost value of the financial instrument and of the interest income / expense in the period of expected maturity of the instrument.

When calculating the effective interest rate, consideration shall be taken to:
- all expected future cash flows;
- all paid and / or charged commissions and fees that form an integral part of the effective interest rate on the financial asset or liability (fees for assessing the client’s financial position, mediation in negotiating the terms of the financial instrument, fees for filing a request and processing the application for approval on loans, fees for withdrawal of funds under the financial instrument, regular monthly fee for managing the loan until the final maturity of loan charged in the same moment of borrowing and payment of the regular contractual interest, etc.);
- transaction costs directly related to the transaction (fees and commissions paid to sales agents, advisers, brokers, dealers, fees to regulatory bodies, paid taxes and customs, etc.) and
- premiums and / or discounts granted to a financial instrument.

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

When calculating the effective interest rate, it should not be taken into account:
- impairment losses.

The fees and commissions that form an integral part of the effective interest rate, the transaction costs directly related to the transaction and the premiums and / or discounts are directly related to the approval of the financial instrument and therefore, represent a correction of the interest rate on the financial asset, or liability and are appropriately delimitated and recognised in the income statement as interest income, i.e. interest expense, in the maturity period of the financial instrument.

2.8.2.2 Principle of measurement at fair value

Measurement at fair value assumes that the asset or liability is exchanged between market participants, in an orderly transaction, according to current market conditions at the measurement date.
The fair value is determined in a variety of ways, depending on whether the asset or liability is traded on an active market or is not traded.

Active Market: Published price

An active market is the market where transactions are carried out with the asset or liability with sufficient frequency and scope in order to provide price information for the asset or liability. The relevant quoted market price for the asset or liability is that within the range between the purchase and the selling price, which best represents the fair value in the relevant terms. Usually the current one is used: the purchase price of the asset held or the obligation to be issued, i.e. the selling / offered price for the asset to be acquired or the obligation to be held; the average market price or other price in accordance with the usual, accepted market practice.

Absence of active market: Valuation techniques

If there is no active market for the financial asset or liability, the Bank uses the valuation techniques for which it has the most available data, in order to determine the fair value of the asset or liability, giving preference to the data that can be verified on the market.

The usual valuation techniques in the Bank are: market approach (quoted prices or other relevant information from market transactions with the same or similar assets or liabilities) and an income approach (discounted value of current market expectations for future amounts (cash inflows or income and expenses)) of the asset or liability.
When applying the valuation techniques, the Bank:
- uses information on the achieved prices of the recent (from the last 6 months), normal, commercial transactions for the same financial instrument between familiar, voluntary parties (if available);
- if there is no information about the prices achieved from the recent transactions for the same financial instrument, then, for determining the fair value, the current market price of another instrument, which is essentially the same (in the sense that it is in the same currency and with the same or similar maturity), should be applied;
- if information on the fair value of a financial instrument cannot be obtained from the markets, then the determination of the fair value of the financial instrument uses data that cannot be confirmed on the market.

Valuation techniques should cover all factors that market participants take into account in determining the price and should be consistent with the adopted economic methodologies for determining the price of financial instruments.
The Bank may change or make changes to the valuation technique of the financial instrument, if such change is due to the development of new markets, the availability of new information, changes in the market conditions or the improvement of the valuation technique, and if it gives more appropriate fair

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

value to the financial instrument. Corrections due to a change in the valuation technique represent a change in the accounting estimates in accordance with IAS 8.

The analysis of discounted cash flows is an important and often applied technique for determining the fair value of assets and liabilities. One of the most important factors in applying this technique is determining the appropriate discount rate.

The discount rate should include the uncertainties and risks from the measurement of cash flows that are related to a particular asset or liability, as well as the variability of those risks and uncertainties. An appropriate discount rate can be determined as follows:

- rate based on the current market yield of the instrument or instrument with similar characteristics;
- reference to a risk-free rate corrected for the corresponding asset risk. When determining the discount rate and the two factors should be taken into account individually. The risk-free rate is normally based on government bonds with comparable characteristics (currency and maturity) of the assets or liabilities for which the discount rate will apply. The risk premium of an asset is equal to the amount that market participants would have asked for as consideration for the uncertainty of the future cash flows of the asset.

Absence of active market: Equity instruments

The Bank measures/determines the fair value of equity instruments that do not have a traded price on an active market and derivatives that are related to them and which must be settled by the delivery of such unquoted equity instruments. The Bank will determine the fair value by applying a method that best reflects the fair value of the equity instrument. In rare cases, if the Bank has investments in equity instruments of certain specific institutions, if there is no active market and whose ownership is determined by law and/or is related to the possibility of using the services of these institutions, it can be considered that their cost value reflects their fair value. The Bank classifies these investments as financial assets measured at fair value through other comprehensive income.

b) Recognition

The Bank initially recognises loans and advances on the date that they are originated.
Regular-way purchases and sales of debt securities measured at amortised costs, at fair value through other comprehensive income and held for trading are recognised on trade date - the date on which the Bank commits to purchase or sell the asset.
The Bank initially recognises financial liabilities on the date they incurred.

c) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred and the transfer qualifies for derecognition. A financial liability is derecognised only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, or expires.

Derecognition due to substantial modification of terms and conditions for restructured financial assets

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The new recognised loans are classified as Stage 1 for expected credit losses (ECL) measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired (POCI).

2 Summary of significant accounting policies (continued)

2.8 Financial instruments (continued)

d) Write-off

The Bank writes off receivables in the following cases:

- when the Bank is not entitled to future cash flows, i.e. the credit exposure repayment rights have expired, irrespective of the basis for which the rights have been lost or expired, which include: an effective court decision on the baselessness of the Banks claims, an effective court decision for a finalized bankruptcy procedure, an effective court decision for an approved plan for reorganization of the debtor in bankruptcy;
- when the Bank has no reasonable expectation of repayment of the credit exposure in whole or partially;
- on small amounts of individually insignificant claims (threshold of MKD 3,000 for Private individuals and MKD 6,000 for Corporate) defined with internal decision of the Bank;
- the Bank made a decision for debt termination in accordance with a law that waives the further collection of the debt;
- if one year have passed from the date as of the Bank had been required to make impairment or allocate impairment in the amount of 100%.

The Bank may perform partial or full write-off of receivables with transferring to a separate off-balance accounts (with the exception of small amounts of individually insignificant receivables) and the Bank keeps separate off-balance records for at least ten years.

The Bank may write-off financial assets that are still subject to enforcement activities but this does not affect its rights in the enforcements procedures. The Bank still seeks to recover all amounts it is legally entitled to in full. Write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense. Write-offs and recoveries are disclosed in note 26 a).

e) Derivative financial instruments

Derivative financial instruments - including forwards and swaps - are initially recognised in the statement of financial position at fair value. Derivative financial instruments are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favorable to the Bank and as well within liabilities when the derivative position is unfavorable to the Bank (notes 32 and 40).

Any gains or losses arising from changes in the fair value of derivatives are taken directly to income statement (note 7).

2.9 Impairment of financial assets

a) Expected credit losses for collective allowance

IFRS 9 applies an ECL model that provides an unbiased and probability-weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forward looking information including future economic conditions. The expected loss model requires the Bank to recognise not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for ECL is required for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

The allowance is based on the ECL associated with the probability of default (PD) in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the PD over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition,

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank historical data, experience, and expert credit assessment and incorporation of forward-looking information.

Classification into stages

The Bank is using a methodology for ECL defining the criteria for classification into stages, transition criteria between stages, models for risk indicators calculation, forward-looking scenarios, and the validation of models. The Bank classifies financial instruments into stage 1, stage 2, and stage 3, based on the applied ECL allowance methodology as described below:

- stage 1 – performing portfolio: no significant increase of credit risk since the initial recognition, the Bank recognises an allowance based on 12-month period. If at the reporting date, the credit risk of assets and potential liabilities has not increased significantly since initial recognition (SICR), the Bank recognize loss allowance in the amount of 12-month ECL (Stage 1);
- stage 2 – underperforming portfolio: significant increase in credit risk (SICR) since the initial recognition, the Bank recognises an allowance for lifetime period, and
- stage 3 – impaired portfolio: the Bank recognises lifetime allowances for these defaulted financial assets.

Defaulted clients are rated D, DF, or E based on the Bank's internal rating system and contain clients with material delays over 90 days, as well as clients that were assessed as unlikely to pay.

Classification between stages depends on:

- credit grade at initial recognition,
- current credit grade of a receivable/client (at reporting date),
- if instrument is included on Watch list 2 or Intensive Care List (ICL),
- forbearance/restructured status of the financial instrument and
- material delays > 30 days.

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology.
The classification into stages is based on the facility level, nevertheless occurring delays on one facility may trigger the stage deterioration of other facilities of the same client. When the SICR criteria no longer exist, the facility may be transferred to a more favourable stage subject to the prescribed holding period.

ECL for stage 1 financial assets is calculated based on 12-month PDs or shorter period PDs, if the remaining maturity of the financial asset is shorter than 1 year. PDs are calculated for three different macroeconomic scenarios, each with probability weight (w), therefore in this step also three ECLs are calculated, which at the end are weighted with scenario probabilities to get the final ECL. Each set of 12-month PDs includes macroeconomic impact/forward looking component.
ECL for stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. There are three scenarios with three different macro effects, namely severe (pessimistic), baseline (expected) and mild (optimistic), as for Stage 1 exposures. Time (t) is the same as the maturity for Stage 2.
For financial instruments in stage 3, the same treatment is applied as for those considered to be credit impaired. Exposures below the materiality threshold obtain collective allowances using PD of 100%. Financial instruments will be transferred out of stage 3 if they no longer meet the criteria of credit-impaired after a probation period Special treatment applies for purchased or originated credit-impaired

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

financial instruments (POCI), where only the cumulative changes in the LECL since initial recognition are recognised as a loss allowance.

There are introduced three scenarios with three different macro effects, namely Severe (pessimistic), Baseline (expected) and Mild (optimistic). Three ECLs are calculated, which at the end are weighted with scenario probabilities to get the final ECL. The weights of all three economic scenarios are used in the final step in the process of ECL calculation, ECL is obtained as a weighted average of ECL1, ECL2 and ECL3 (for Severe and Mild scenario is used 20% weight and for Baseline scenario is used 60% weight).

The calculation of collective impairment is performed by multiplying the exposure at default (EAD) at the end of each month with an appropriate PD and loss given default (LGD). The obtained result for each month is discounted to the present time using the original effective interest rate of the facility. For stage 1 exposures, the ECL only takes a 12-month period into account, while for stage 2 or 3 all potential losses until maturity date are included.

The weights of all three economic scenarios are used in the final step in the process of ECL calculation, ECL is obtained as a weighted average of ECL1, ECL2 and ECL3:

$$ECL = ECL_1 * w_1 + ECL_2 * w_2 + ECL_3 * w_3$$

where 1 stands for severe scenario ECL, 2 for baseline and 3 for mild respectively.

The EAD represents the anticipated outstanding amount owed by the obligor, which is determined as the sum of on-balance exposure and expected future drawings of the off-balance exposure. The drawings are assessed by applying the credit conversion factor (CCF) based on the bank's historic experience with similar types of facilities.

The PD is the estimation of likelihood of default over a given time horizon. The estimation is performed separately for each unique product group or segment of clients. Through the cycle, the PD is supplemented with the forward-looking aspect using multiple possible scenarios.

The LGD parameter reflects the expected loss the facility will incur in case of the event of default. The LGD value is assessed based on the Bank's historic data on repayments from different types of collateral, as well as other types of repayments such as regular/partial repayments, repayments from legal proceedings, sale of receivables, and others. Through the cycle, the LGD is supplemented with the forward-looking aspect to reflect the expected changes in the macroeconomic parameters.

Expected Life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Forward looking information

The Bank incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Bank considers forward-looking information such as macroeconomic factors (GDP, unemployment rate and inflation rate) and economic forecasts. Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts. Effects of changed risk parameters on the amount of ECL are disclosed in note 26.

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

Forborne loans

A forborne loan (or restructured financial asset) arises as a result of a debtor's inability to repay a debt under the originally agreed terms, either by modifying the terms of the original contract (via an annex) or by signing a new contract under which the contracting parties agree the partial or total repayment of the original debt. If receivables due from the client have the status of restructuring, the debtor must be classified in the rating group C or lower.

The accounting treatment of forborne loans depends on the type of restructuring. When the Bank embarks on a forborne loan via modified terms of repayment proceeding from extending the deadline for the repayment of the principal and/or interest, and/or a forbearance of the repayment of the principal, and/or interest or a reduction in the interest rate, and/or other expenses, it adjusts the carrying amount of the forborne loan on the basis of the discounted value of the estimated future cash flows under the modified terms, and recognises the resulting effect in profit or loss. In the event of the reduction of a claim against the debtor via the reduction in the amount of the claims as a result of a contractually agreed debt waiver and ownership restructuring or debt to equity swap, the Bank derecognises the claim in the part relating to the write-down or the contractually agreed debt waiver.

The new estimate of the future cash flows for the residual claim, not yet written down, is based on an updated estimate of the ECL. The Bank considers the debtor's modified position, the economic expectations and the collateral of the forborne loan. When the Bank is embarking on the forborne loan by taking possession of other assets (property, plant and equipment, securities, and other financial assets), including investments in the equity of debtors obtained via debt-to-equity swaps, it recognises the acquired assets in the statement of financial position at fair value, recognising the difference between the disclosed fair value of the asset and the carrying amount of the eliminated claim in profit or loss.

Forborne exposures may be identified in both the performing and non-performing parts of the portfolio. Where the forborne loan is classified in the non-performing part of the portfolio, it can be reclassified to the performing part if exposure is no longer considered as impaired or defaulted, if determined amounts were repaid, if one year has passed from the latest of the events defined (introduction of forbearance, classification in the non-performing part, repayment of the last overdue amount, end of the grace period) and after the introduction of forbearance there have been no overdue amounts or doubts concerning the repayment of the entire exposure, under the terms and conditions after the forbearance. The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- at least 2-year probation period has passed from the latest of:
  - the moment of conducting or extending the restructuring measures or
  - the forborne exposure was deemed performing (transit to non-performing exposure(NPE) rating);
- regular payments of the principal or interest were made, in a substantial total amount, during at least half the probation period and
- no exposure to the debtor, in the probation period, is more than 30 days past due more than 100 EUR (if the delay is more than 30 days past due more than 100 EUR, the exposure become NPL again).

b) Individual assessment of allowances for impaired financial assets

Assets carried at an amortised cost

The Bank assesses impairments of financial assets separately for all individually significant assets classified in stage 3. All other financial assets obtain collective allowances. The materiality threshold is set at MKD 3.075 thousand or EUR 50 thousand exposure for legal entities and MKD 3.075 thousand or EUR 50 thousand for private persons.

2 Summary of significant accounting policies (continued)

2.9 Impairment of financial assets (continued)

The amount of the ECL is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date. The scenario of expected cash flows can be based on the "going concern" assumption, where the cash flow from operations is considered along with the sale of collateral that is not crucial for future business. In the case of the "gone concern" principle, the repayments are based on expected cash flows from the sale of collateral. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut (HC) used as defined in the Haircut Methodology, and discounted. Off-balance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.
The carrying amount of financial assets measured at amortised cost is reduced through an allowance account and the loss is recognised in the income statement item "Impairment of financial assets". If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account and gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position in item "Provisions" and also in the income statement in item "Provisions".

The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

2.10 Investments in equity instruments

The Bank has equity investments that provide less than 20% of the share capital of the company where it is invested. In these investments there is no significant influence, it cannot be controlled or significantly influenced on the decisions made by the management of the company where it is invested.

Equity financial instruments are classified and measured at fair value (they do not have contractual cash flows based on principal and interest, i.e. they do not meet the requirements of the SPPI). For equity instruments not held for trading, the Bank has chosen, at initial recognition, changes in fair value (realized and unrealized / calculated) to be recorded in revaluation reserves within other comprehensive income. Further, the amounts in the revaluation reserves can only be reclassified to another category of equity, but cannot be recognised in the income statement. This decision in the Bank is adopted for an individual instrument, only at initial recognition of the instrument and after that reclassification is not allowed.

Foreign exchange gains and losses on equity instruments classified as at fair value through other comprehensive income are recognised in other comprehensive income.
Dividends arising from equity investments are recognised in the income statement when the entity's right to receive payment is determined.
In accordance with the IFRS 9, for investments in equity instruments, impairment is not calculated.

2 Summary of significant accounting policies (continued)

2.11 Foreclosed collateral

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Foreclosed assets include land, property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan. These assets are reported as foreclosed collateral. Initially, these assets are measured at fair value less cost to sell, as estimated and documented upon repossession and are sold as soon as is practical in order to reduce exposure. Management has made an estimate of the expected recoverable amount net of cost to realise the assets, based on a number of factors, including independent assessment.
At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate and other foreclosed assets are performed by certified real estate appraisers. The real estate and other assets are impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as impairment of non- financial assets in the income statement.
The Bank measures foreclosed collateral in accordance with IAS 2 Inventories.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13 Property, equipment and right-of-use assets

All items of property and equipment are initially recognised at cost. They are subsequently measured at cost less accumulated depreciation and any accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the items.
Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in note 2.16. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Subsequent costs that increase future economic benefits are recognised in the carrying amount of an asset, and the replaced part, if any, is derecognised.

Land and paintings are not depreciated. Depreciation of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

The useful life of certain categories of tangible assets is as follows:

	2021	**2020**
Buildings	40 years	40 years
Leasehold improvements	5 years	5 years
Computers	5 years	5 years
Furniture and equipment	4-10 years	4-10 years
Motor vehicles	8 years	8 years

Depreciation does not begin until the assets are available for use.

2 Summary of significant accounting policies (continued)

2.13 Property, equipment and right-of-use assets (continued)

Each year, the Bank assesses whether there are indications that property and equipment may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognised as a loss in the income statement.
The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount and are recognised in the income statement (note 9).

2.14 Intangible assets

Intangible assets include software, licenses and other intangible assets (note 30). Intangible assets that are acquired by the Bank have a finite useful life and are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis at rates designed to write-down the cost of an intangible asset over its estimated useful life. Intangible assets are amortised from the date they are available for use.
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The useful life of certain categories of intangible assets is as follows:

	2021	**2020**
Software	4-10 years	4-10 years
Patents and licenses	3-10 years	3-10 years
Other	5 years	5 years

2.15 Investment property

Investment properties include buildings held to earn rentals, or to increase the value of a long-term investment, rather than to be used by the Bank. The Bank holds investment property acquired from transfer of property to investment. Rental income from investment property is recognised in the income statement on a straight - line basis over the term of the lease.

Investment property is measured at fair value determined by a certified appraiser, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the year in which they arise.
When the Bank makes a decision to use the assets for its own purposes, they are reclassified to property and equipment.

2 Summary of significant accounting policies (continued)

2.16 Leases

A lease is a contract, or part of a contract, which creates enforceable rights and obligations and conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Thus, IFRS 16 requires determination whether a contract is, or contains, a lease.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.
The most significant type of leases are leases of business premises and sublease of pos-terminals. The leases have an average life of between one and ten years. There are no restrictions placed upon the lessee by entering into these. The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank does not have lease contracts that include extension and termination options.
The Bank has certain leases for ATM space and office equipment with lease terms of 12 months or less or with low value and applies the “short-term lease” and “lease of low value assets” recognition exemption for these leases.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use) except for short-term leases and leases of low-value assets. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.
In the statement of financial position, the right-of-use assets are presented within note 29 Property, equipment and right-of-use assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.
Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. The Bank do not have expenses relating to variable lease payments and purchase option.
Important assumption for the calculation of the net present value of the future lease payments was the discount rate where the Bank applies the internal transfer price for retail deposits according to the lease term.
Subsequently (after the commencement date), the Bank measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

In the statement of financial position, lease liabilities are presented within note 38 Other financial liabilities.

2 Summary of significant accounting policies (continued)

2.16 Leases (continued)

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted on a straight-line basis over the period of the lease and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Assets leased under operating leases are presented in the statement of financial position as Investment property or as Property and equipment.

2.17 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and balances with National Bank of the Republic of North Macedonia and other demand deposits at banks, loans to banks, deposits to other financial companies and debt securities not held for trading with an original maturity of up to 90 days. Cash and cash equivalents are disclosed under the statement of cash flows.

2.18 Borrowings, deposits, subordinated liabilities and debt securities in issue

Deposits, borrowings, subordinated liabilities and issued debt securities are the Bank's sources of debt funding.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

The Bank initially recognises deposits, borrowings, subordinated liabilities and debt securities in issue on the date that they are originated.

Deposits, borrowings, subordinated liabilities and debt securities are initially measured at fair value, which is equal with their cost value, net of transaction costs, and subsequently measured at their amortised cost using the effective interest method.

The difference between the value at initial recognition and the final value is recognised in the income statement as interest expense, applying the effective interest rate.

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired.

2.19 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. They are recognised in the amount that is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions for employee benefits are determined by discounting the expected future cash flows with a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Bank recognises provisions for lawsuits when there is a risk of loss due to costs incurred in the fulfilment of the obligations on the basis of the Bank's negative court decision that has to be met. Provisions for lawsuits are drawn up or spent directly to cover the costs (expenses) for which they were formed.

Provisions for lawsuits are terminated after the positive effective termination of court proceeding against the Bank. If an extrajudicial legal remedy is submitted by the plaintiff during that period, the provisions shall be held in accordance with the estimated expected amount of the compensation.

2 Summary of significant accounting policies (continued)

2.20 Contingent liabilities and commitments

Financial and non-financial guarantees

Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of the customer to secure loans, overdrafts, and other banking facilities. The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract.
Financial and non-financial guarantees are initially recognised at fair value, which is normally evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. The Bank's liabilities under guarantees are subsequently measured at the greater of:

- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- under IFRS 9 – an ECL provision as set out in note 26 b.

Documentary letters of credit

Documentary (and standby) letters of credit constitute a written and irrevocable commitment of the issuing (opening) bank on behalf of the issuer (importer) to pay the beneficiary (exporter) the value set out in the documents by a defined deadline:

- if the letter of credit is payable on sight; and
- if the letter of credit is payable for deferred payment, the bank will pay according to the contractual agreement when and if the beneficiary (exporter) presents the bank with documents that are in line with the conditions and deadlines set out in the letter of credit.

A commitment may also take the form of a letter of credit confirmation, which is usually done at the request or authorisation of the issuing (opening) bank and constitutes a firm commitment by the confirming bank, in addition to that of the issuing bank, which independently assumes a commitment to the beneficiary under certain conditions. Documentary letters of credit are treated as financial guarantee in accordance with IFRS 9.

Other contingent liabilities and commitments

Other contingent liabilities and commitments represent undrawn loan commitments to extend credit, uncovered letters of credit, and other commitments. The nominal contractual value of guarantees, letters of credit, and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.
Other contingent liabilities and commitments are treated as financial guarantee in accordance with IFRS 9.

2.21 Taxation

The tax expense for the period comprises current and deferred tax.

a) *Current tax assets/liabilities*

Current tax assets/liabilities include the liability for income tax determined by the Bank's tax return for the current financial period.
Due to Macedonian tax legislation, the Bank calculates income tax on the gross profit calculated as the difference between total revenue and total expenses, determined in accordance with accounting regulations and accounting standards, increased for non-deductible expenses for tax purposes determined by the law, and reduced for the amount of investments of profits from previous year and

2 Summary of significant accounting policies (continued)

2.21 Taxation (continued)

the dividends realized through participation in the capital of another taxpayer that already has paid the tax.

Current tax assets / liabilities are recognised when the amount of tax paid for the current and previous periods is higher / lower than the amount due amount for the period when the liability is not settled.

Income tax rate in 2021 and 2020 is 10%.

According to the local regulation, the income tax basis can be reduced by the amount of investments in property and equipment, as well as software. In order to use the tax relief for the investments made, the Bank must transfer profit to other reserves, in amount expected to be invested in property and equipment as well as software.

The amount of the calculated income tax is reduced for donated funds to sports entities, which are paid into a special purpose account, based on a voucher issued by the Agency for Youth and Sport, in accordance with the Law on Sports. The tax can be reduced up to 50% of the calculated tax.

According to the tax legislation, taxes and tax liabilities expire after period of 5 years, with exception of a tax fraud with expiration of 10 years. As a result, the Bank's tax liabilities for the period from 2017 to 2021 cannot be considered as final. Any additional taxes and penalties, if any, which may arise in the event of a tax audit, at this stage, cannot be determined with reasonable accuracy.

b) Deferred tax

Deferred income tax is calculated on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised if it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period that are expected to apply to the period when the asset is realised or the liability is settled. At each reporting date, the Bank reviews the carrying amount of deferred tax assets and assesses future taxable profits against which temporary taxable differences can be utilized.

2.22 Fiduciary activities

The Bank provides asset management services to its clients. Assets held in a fiduciary capacity are not reported in Bank’s financial statements as they do not represent assets of the Bank. Fee and commission income and expenses relating to fiduciary activities are generally recognised in the income statement when the service has been provided.

2.23 Employee benefits

Employee benefits include:

- short-term employee benefits (such as salaries, social security contributions, compensations and non-monetary benefits);
- retirement indemnity bonuses (post-employment benefits); and
- jubilee long-service benefits (other employment benefits).

Short-term employee benefits are recognised in the period to which they relate and included in the income statement item “Personnel expenses”. Among others they include the payment of contributions for pension and disability insurance and unemployment, which according to local legislation (for employer) amount to 28% of the gross salaries.

2 Summary of significant accounting policies (continued)

2.23 Employee benefits (continued)

Due to legislation, employees retire when they turn 64 years (men) and 62 years (women). There is a possibility to extend their employment up to 64 years regarding the labour law. Employees are entitled to a lump-sum severance payment for retirement. Employees are also entitled to a long-service bonus for every 10 years of service in the Bank according the Bank's Collective agreement. These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on benefit plan terms and conditions.

Service costs are included in the income statement in the item "Personnel expenses" as defined benefit costs, while interest expenses on the defined benefit liability are recognised in the item "Interest and similar expenses". These interest expenses represent the change during the period in the defined benefit liability that arises from the passage of time. For post-employment benefits, actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) are recognised in other comprehensive income under the item "Actuarial gains/(losses)", and will not be recycled to the income statement. Actuarial gains and losses that relate to other employment benefits are recognised in the income statement as defined benefit costs. In the statement of financial position, liabilities for short-term employee benefits are included in item "Other liabilities", while liabilities for post-employment benefits and other employment benefits (jubilee long-service benefits) are included in item "Provisions".

2.24 Share capital

(a) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

2.25 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year.
Diluted EPS is determined by adjusting the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential shares.
Diluted earnings per share is identical with the basic (EPS), because there are no potential shares issued, which have an effect of the correction on the net profit attributable to holders of ordinary shares.

2.26 Related parties' transactions

A related party is a person or entity that is related to the Bank in such a manner that it has control or joint control, has a significant influence, is a member of the same group or is a member of the key management personnel of the Bank. Related parties of the Bank include: Nova Ljubljanska banka d.d. Ljubljana as a parent bank and NLB Group members, key management personnel of the Bank (Management Board, other key management personnel and their family members); the Supervisory

2 Summary of significant accounting policies (continued)

2.26 Related parties' transactions (continued)

Board and companies in which members of key management personnel or their family members have control, joint control, or a significant influence.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. All banking transactions entered into which related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

2.27 Critical accounting estimates and judgments

The Bank's financial statements are influenced by accounting policies, assumptions, estimates, and management's judgment. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. All estimates and assumptions required in conformity with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuing basis, and are based on past experience and other factors, including expectations with regard to future events.

(a) Allowances for expected credit losses on loans, advances and off balance sheet exposure

The Bank monitors and checks the quality of the loan portfolio at the individual and portfolio levels to continuously estimate the necessary allowances for ECL. The Bank creates individual allowances for individually significant financial assets attributed to stage 3, which meet the threshold as disclosed in note 2.9 above. Such an assignment is based on information regarding the fulfilment of contractual obligations or other financial difficulties of the debtor, and other important facts. Individual assessments are based on the expected discounted cash flows from operations and/or the assessed expected payment from the collateral.

Allowances are assessed collectively for financial assets assigned to stage 1 or 2 or for financial assets in stage 3 with exposure below the materiality threshold. ECL in this group of assets is estimated on the basis of expected value of risk parameters combining the historic movements with the future macroeconomic predictions.

$$ECL = \sum_{t=1}^{month} EAD(t) * PD(t) * LGD(t)$$

PD - The calculation of forward looking point in time (PIT) matrices is based on non-weighted historical transition PIT matrices, where each matrix represents transitions from the state at the end of the previous period to the state at the end of the current period, additionally intrayear transitions to D and E are included. The transition matrix shows the probability of transition from one rating grade to another, given the number of entities in each grade at the beginning of the period under observation. Yearly or 12-month PD is the sum of transition probabilities from A, B and C grades to D and E grades. The materiality threshold is set at EUR 1,000 (MKD 61,500) of exposure for legal entities and EUR 100 (MKD 6,150) for private individuals.

For the purpose of estimating LGD parameter, the Bank is using collateral HC at the level of each type of collateral and unsecured recovery rate (URR) at the level of each client segment. LGD for E rated clients (all unsecured E rated legal entities and all unsecured E rated private individuals) in Stage 3 (or 4) equals 100%.

HC – collateral HC are calculated on historic data for defaulted clients - repayments from sale of collateral and direct cost connected to cashing of collateral are discounted to the day of default and compared to the market value of collateral at time of default.

URR – unsecured recovery rate represents the rate of recovered defaulted exposures which are not resulting from collateral. Basis for the URR calculation are the collected recoveries after the default, reduced by direct costs.

2 Summary of significant accounting policies (continued)

2.27 Critical accounting estimates and judgments (continued)

The models used to estimate future risk parameters are validated and back-tested from the Bank on a regular basis in order to make ECL as realistic as possible.

In general, the macroeconomic logic/rationale behind the severe scenario is related to a range of plausible impacts of the Covid-19 pandemic on the economic development during the next 3 years. The basis for the scenario is related to the European Central Bank's (ECB) view of economic development after the coronavirus outbreak since early 2020. Due to high uncertainty over the impact of the Covid-19 pandemic on the underlying assumptions for projections of macroeconomic environment, the construction of scenario is warranted and crucial at this stage of economic recovery. Narratives surrounding the development of the pandemic and its impact on economic activity are based on illustrative scenario of possible impact across the euro area, compiled by the ECB staff. They envisioned and illustrated a severe scenario resolution of the pandemic crisis through the lens of possible expected impact on economic activity in the euro area. Nevertheless, we will focus only on the trajectory of real GDP and the unemployment rate within the projection horizon, since both variables were tested and are included in the modelling process of PD and LGD, respectively. In general, the severe scenario assumes a more protracted crisis and permanent losses in economic potential. The storyline in the scenario is the following. In the severe scenario envisages a strong intensification of the pandemic due virus mutations and implementation of very stringent measures in the short term.

Main assumptions in both macro variable patterns for severe scenarios:
- bounce back of GDP on pre-crisis level is expected in 2023 and
- recovery of labour market and a successful prevention of hysteresis effects are not fully prevented. Government support measures, reallocation effects in labour market and upside risks stemming from credit frictions (e.g. higher possibility of bankruptcy).

Following are macroeconomies forecast:

	2021	2022	2023
Real GDP	4%	4%	3.5%
Unemployment	17%	16.5%	16%

and below is presented the evolution of relevant variables under this scenario:

	Severe		
	2021	2022	2023
Real GDP	2%	2.1%	4.2%
Unemployment	17.8%	18.9%	18.3%

2 Summary of significant accounting policies (continued)

2.27 Critical accounting estimates and judgments (continued)

The credit risks parameters for this stress scenario are presented below:

FO – retail
PO – corporate
FL PD - forward looking probability of default

Retail segment on short ratings

			SEVERE		
SEGMENT	TYPE	BON	FL PD 2021	FL PD 2022	FL PD 2023
FO	CONS	A	2.55%	3.30%	2.75%
FO	CONS	B	21.71%	14.69%	14.69%
FO	CONS	C	37.88%	20.00%	20.00%
FO	MRTG	A	0.70%	0.95%	0.95%
FO	MRTG	B	17.23%	11.21%	11.21%
FO	MRTG	C	37.05%	14.85%	14.85%
FO	OTHR	A	1.92%	1.92%	1.45%
FO	OTHR	B	22.35%	14.46%	14.46%
FO	OTHR	C	34.29%	16.91%	16.91%

Corporate segment on long ratings

			SEVERE		
SEGMENT	TYPE	BON	FL PD 2021	FL PD 2022	FL PD 2023
PO	ALL	AAA	1.03%	1.31%	1.29%
PO	ALL	AA	3.08%	3.94%	3.87%
PO	ALL	A	6.15%	7.88%	7.73%
PO	ALL	BBB	6.15%	7.88%	7.73%
PO	ALL	BB	6.15%	7.88%	7.73%
PO	ALL	B	13.21%	14.36%	12.40%
PO	ALL	CCC	13.21%	14.36%	12.40%
PO	ALL	CC	26.74%	20.42%	13.65%
PO	ALL	C	53.49%	40.84%	27.30%

2. LGD Multipliers

	SEVERE	
2021	**2022**	**2023**
110.05	111.62	116.38

3. URR

1- URR	
FO	PO
65.00%	60.00%

2 Summary of significant accounting policies (continued)

2.27 Critical accounting estimates and judgments (continued)

4. CCF

CR_SEKTOR_	POSEL_TIP	Description	CCF
FO	105	Personal account	72.16%
FO	230	Mastercard	51.63%
FO	231	Visa	57.23%
FO	710	Performance guarantee	50.00%
FO	711	Payment guarantee	100.00%
PO	100	Business account	72.95%
PO	201	Loans for investments in current assets	100.00%
PO	230	Mastercard	87.68%
PO	231	Visa	80.97%
PO	710	Performance guarantee	50.00%
PO	711	Payment guarantee	100.00%

5. HC

HC	
FO	PO
50.00%	80.00%

The ECL is sensitive to the input of macro-overlay assumption. The results of the stress scenario (Severe) for the Bank show an increase of impairments by EUR 6.8 million or MKD 418.2 million (2020: EUR 25 million or MKD 1,538 million).

(b) Fair value of financial instruments

The fair values of financial investments traded on the active market are based on current bid prices (financial assets).

The fair values of financial instruments that are not traded on the active market are determined by using valuation models. These include a comparison with recent transaction prices, the use of a discounted cash flow model. These valuation models pretty much reflect current market conditions at the measurement date, which may not be representative of market conditions either before or after the measurement date.

The fair values of derivative financial instruments are determined on the basis of market data (mark-to-market).

2 Summary of significant accounting policies (continued)

2.27 Critical accounting estimates and judgments (continued)

(c) Impairment of foreclosed assets

The process of calculating impairment loss requires that the management make significant and complex assumptions regarding the projected period of sale of foreclosed assets, their estimated net sales value and the corresponding discount rate, in order to discount to net present value the expected cash flow from sale of specific items of foreclosed assets including independent assessment.

Management of the Bank expected that the foreclosed assets will be sold in a reasonable time frame, with no loss. On the contrary, adjustments will be made in future periods if future market activity indicates that such adjustments are appropriate.

(d) Employee benefits

Liabilities for employee benefits are calculated by an independent actuary. The main assumptions included in the actuarial calculation are as follows:

	2021	2020
Actuarial assumptions		
Discount factor (in %)	2.2	3.0
Wage growth based on forecast on inflation, promotions, and wage growth based on past years of service (in %)	2.5 - 4.1	1.4 - 2.7
Other assumption		
Number of employees eligible for benefits	877	877

Sensitivity analysis of significant actuarial assumption

31.12.2021	Discount rate		Growth in amounts of benefits	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions (in %)	(4.8)	5.2	5.2	(4.8)

31.12.2020	Discount rate		Growth in amounts of benefits	
	+0.5 b.p.	-0.5 b.p.	+0.5 b.p.	-0.5 b.p.
Impact on employee benefits provisions (in %)	(4.8)	5.1	5.2	(4.8)

Individual analysis is done by changing one assumption for + / - 0.5 percentage points, while all other assumptions stay the same.

The breakdown of actuarial gains and losses for post-employment benefit by causes

	2021	2020
Actuarial gains and losses due to a change in financial assumptions	1,983	(358)
Actuarial gains and losses due to a change in demographic assumptions	(393)	341
Actuarial gains and losses due to experience	754	270
Total actuarial gains (-) and losses (+) in the period	**2,344**	**253**

2 Summary of significant accounting policies (continued)

2.27 Critical accounting estimates and judgments (continued)

The weighted average duration of liabilities in years

	2021	2020
Post-employment benefit	11.5	11.9

2.28 Implementation of the new and revised International Financial Reporting Standards

During the current year, the Bank adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (hereinafter: "the IASB") and the International Financial Reporting Interpretations Committee (hereinafter: "the IFRIC"), that are effective for annual accounting periods beginning on 1 January 2021. The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2021:

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. These amendments had no significant impact on the financial statements of the Bank.

Standards issued but not yet effective and not early adopted

- **IFRS 17: Insurance contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)**

The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a "classification overlay", relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. These amendments have not yet been endorsed by the EU. The amendments had no impact on the financial statements of the Bank.

2 Summary of significant accounting policies (continued)

2.28 Implementation of the new and revised International Financial Reporting Standards (continued)

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments had no impact on the financial statements of the Bank.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments were initially effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.
In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These amendments had no significant impact on the financial statements of the Bank.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

2 Summary of significant accounting policies (continued)

2.28 Implementation of the new and revised International Financial Reporting Standards (continued)

- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

These amendments had no significant impact on the financial statements of the Bank.

- **IFRS 16 Leases -Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. These amendments had no significant impact on the financial statements of the Bank.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose “significant” accounting policies with a requirement to disclose “material” accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. These amendments had no significant impact on the financial statements of the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. These amendments had no significant impact on the financial statements of the Bank.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the

2 Summary of significant accounting policies (continued)

2.28 Implementation of the new and revised International Financial Reporting Standards (continued)

amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. These amendments had no significant impact on the financial statements of the Bank.

- **IAS 41 Agriculture – Taxation in fair value measurements**

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted. These amendments had no significant impact on the financial statements of the Bank.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter**

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. These amendments had no significant impact on the financial statements of the Bank.

2.29 Subsequent events

Post-year-end events that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Risk management

Risk identification and the assessment of the materiality of the risks are key components in the ICAAP and ILAAP process. The identification of risks indicates on which risk the Bank is or may be exposed. The risk identification process is conducted on an annual regular basis. If during the year there is a significant change in the risk profile or strategy of the Bank, the risk assessment is revised. The main risk categories are: credit risk, market risk, interest rate risk, liquidity risk, operational risk and non-financial risks.
The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

Risk management in the Bank is implemented in accordance with the established internal policies and procedures which take into account local regulation, NLB Group guidelines and relevant good banking practices. In addition, the Bank is constantly enhancing and complementing the existing approaches, methodologies, and processes in all risk management segments.

Managing risks and capital efficiently is crucial for the Bank's sustained long-term profitable operations. Robust Risk Management framework is comprehensively integrated into decision - making, steering, and mitigation processes. The Bank gives high importance to the risk culture and awareness of all relevant risks.

The Bank's Risk management framework supports business decision - making on strategic and operating levels, comprehensive steering, and proactive risk management by incorporating:
- risk appetite statement and risk strategy orientations;
- yearly review of strategic business goals, budgeting, and capital planning process;
- the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP);
- recovery plan activities;
- other internal stress-testing capabilities and on-going risk analysis;
- regulatory and internal management reporting.

Set governance and different risk management tools enable adequate oversight of the Bank's risk profile. Moreover, they support business operations and enable efficient risk management by incorporating escalation procedures and different mitigation measures when necessary.

a) Risk management strategies and processes

The key goal of the Bank's Risk Management is to proactively manage, assess, and monitor risks within the Bank. Sound and holistic understanding of risk management is embedded into the entire organisation, focusing on risk identification in a very early stage, efficient risk management, and mitigation of them with aim to ensure the prudent use of its capital, adequate liquidity structure and related buffers to support financial resilience of the Bank.

Key risk management guidelines are defined by its Risk Appetite and Risk Strategy with regard to the Bank's business model, based on a forward-looking perspective. They are regularly revised and enhanced. The Strategy of the Bank, the Risk Appetite and Risk Strategy guidelines and the key internal policies – which are approved by the Management Board and by the Supervisory Board – specify the strategic goals, risk appetite guidelines, approaches and methodologies for monitoring, measuring, and managing all types of risk in order to meet internal objectives and all external requirements. In addition, main strategic risk guidelines are integrated into the annual business plan review and budgeting process.

The Bank plans a prudent risk profile, optimal capital usage, representing an important element of its business strategy and related mid-term financial targets. The management of credit risk, which is the most important risk category in the Bank, concentrates on taking low to moderate risks – a diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal

3 Risk management (continued)

return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards constantly ensuring an appropriate level of liquidity, both in the short and long terms. The Bank limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to the moderate level. The fundamental orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital, therefore, a moderate tolerance for this risk is stated. Concerning market and operational risks, the Bank follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is low and focuses on minimising their possible impacts on entire operations.

Risk management focuses on managing and mitigating risks in line with the Bank's Risk Appetite and Risk Strategy, representing the foundation of the Bank's Risk management framework. Within these frameworks the Bank monitors a range of risk metrics in order to assure that the Bank's risk profile is in line with its risk appetite. The usage of risk limits and potential deviations from limits and target values are reported regularly to the respective committees and/or the Management Board of the Bank. The comprehensive Risk Report is reviewed quarterly by the Supervisory Board. Additionally, the Bank has set up early warning systems in different risk areas with the intention of strengthening existing internal controls and timely responses when necessary.

For the purpose of an efficient risk mitigation process, the Bank applies a single set of standards to retail and corporate loan collateral, which represents a secondary source of repayment with the aim of efficient credit risk management and consuming capital economically. The Bank has a system for monitoring and reporting collateral at fair (market) value in accordance with the International Valuation Standards (IVS). The eligibility of collateral, by types and ratios referring to prudent lending criteria, is set within internal lending guidelines. Credit risk mitigation principles and rules in the Bank are described in more relevant details in the Section Credit risk management.

The Bank established comprehensive stress testing framework and other early warning systems in different risk areas with the intention to strengthen the existing internal controls and timely responding when necessary. Robust and uniform stress testing programme includes all material types of risk and relevant stress scenario analysis, according to the vulnerability of the Bank's business model. It is integrated into Risk appetite, ICAAP, ILAAP and the Recovery plan to support proactive management of the Bank's risk profile, namely capital and liquidity position on a forward-looking perspective. In addition, the Bank also performs reverse stress tests with the aim to test its maximum recovery capacity. Other partial risk assessments are covered by the sensitivity analysis, based on relevant stressed risk parameters, and integrated into the process of setting a risk management limit system.

b) Risk management structure and organisation

The Bank established three lines of a defence framework with the aim to manage risks effectively. The three lines of defence concept provide a clear division of activities and define roles and responsibilities for risk management at different levels within the Bank. Risk management in the Bank acts as a second line of defence, accountable for appropriate managing, assessing, monitoring, and reporting of risks in the Bank.

Risk management is carried out by a Risk management division in the Bank under policies approved by the Supervisory Board. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, foreign exchange risk, interest rate risk, liquidity risk, operational risk and other non-financial risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

Overall, the organisation and delineation of competencies in the Bank's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in the Bank is centralised within the Risk management competence line, which is a specialised competence line encompassing several professional areas, for which the Risk Management Division (Credit Risk Management Department and Non-Credit Risk Management Department) is responsible within the Bank, and which reports to the Assets and Liabilities Committee (ALCO), Operational Risk Committee (ORC), Risk Management Board, Management Board and the Supervisory Board. The Risk management competence line is in charge of formulating and controlling the risk management

3 Risk management (continued)

policies, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within the Bank, monitoring the Bank's risk exposures and preparing external and internal reports. Additionally, the Bank reports its exposure to risks to the competent organisational units within the Risk management competence line in NLB d.d.

Risk monitoring in the Bank is centralised within an independent and/or separate organisational unit. The centralised monitoring of risks aims to establish standardised and systemic approaches to risk management, and therefore, a comprehensive overview of the Bank's statement of financial position. In compliance with the risk management policies of the Bank, risk monitoring in the Bank is separated from its management and/or business function in order to maintain the objectivity required when assessing business decisions. The organisational unit for managing risks directly reports to the Management Board, which report to the Supervisory Board.

c) Risk measurement and reporting systems

The Bank as part of the NLB Group complies with the ECB regulation and the rules set by the local regulator. With regard to capital adequacy, the Bank applies the standardised approach to credit, market and operational risk. For the purposes of measuring exposure to credit, market, interest, operational, and non-financial risks, in addition to prescribed regulations, the Bank uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as the local regulation and best practices in banking methodologies.
As for risk reporting, the Bank's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the local regulator and NLB d.d. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, appropriate databases and the automation of report preparation, which ensures the quality of reports and reduces the possibility of errors.

d) Data and IT system

Most of the risk data are calculated and stored in Data Warehouse (DWH). The data are collected from transactional source systems and other source systems (e.g. general ledger). The established process provides integrated information in common reference structure where business users can access in a consistent and subject - oriented format. Data are regularly checked and validated. Data used for internal risk assessment, management, and reporting are the same as data which the Bank uses for regulatory reporting.

e) Main emphasis of risk management in 2021

Efficient managing of risks and capital is crucial for the Bank to sustain long-term profitable operations. The Bank further enhanced the robustness of its risk management system in all respective risk categories in order to manage them proactively, comprehensively and prudently. Risk identification in a very early stage its efficient managing, and the corresponding mitigation processes represent essential steps in such a system. The business and operating environment relevant for Bank operations is changing with trends such as changing customer behaviour, emerging new technologies and competitors, and increasing new regulatory requirements. Considering that risk management is continuously adapting with the aim to detect and manage new potential emerging risks.

The Bank introduced early collection line for private individuals in May 2021, which results in better collection and decrease of NPLs.

There are introduced three scenarios with three different macro effects, namely Severe (pessimistic), Baseline (expected) and Mild (optimistic). Three ECLs are calculated, which at the end are weighted with scenario probabilities to get the final ECL. The weights of all three economic scenarios are used in the final step in the process of ECL calculation, ECL is obtained as a weighted average of ECL1,

3 Risk management (continued)

ECL2 and ECL3 (for Severe and Mild scenario is used 20% weight and for Baseline scenario is used 60% weight).

The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

In the still negative interest rate environment, the Bank faced growing excess liquidity, whereby significant attention was put to the structure and concentration of the liquidity reserves by incorporating early warning systems, having in mind potential adverse negative market movements. Excess liquidity and market demand for fixed interest rates products resulted in moderately increased interest rate risk exposure, which stayed within moderate tolerance toward this risk. Moreover, during 2021 the Bank's capital and liquidity position remained strong, standing above the targeted risk appetite profile.

There was also a large emphasis on the management of operational risks, where the Bank follows the guideline that such risk may not considerably influence its operations. In 2021, additional efforts were made with regard to proactive mitigation, prevention, and minimisation of potential damage in the future. Furthermore, key risk indicators, servicing as an early warning system for the broader field of operational risks, were additionally enhanced. Their upgrade facilitates more detailed information for the more effective planning of measures and operational risk management, improves the existing internal controls and enables reacting on time when necessary.

3.1 Credit risk management

a) Introduction

In its operations, the Bank is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to the Bank. For that reason, it proactively and comprehensively monitors and assesses the aforementioned risk. In that process, the Bank follows the International Financial Reporting Standards, regulations issued by the National Bank of the Republic of North Macedonia, and the EBA guidelines. This area is governed in greater detail by the internal methodologies and procedures set out in internal acts.

The Bank manages credit risk at two levels: at the level of the individual customer/ group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with the Bank are assessed. It is also important to secure high quality collateral even though it does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations. As regards this detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For the purpose of objectively assessing a client's operation comprehensively, internal scoring models have been developed.

The quality of the credit portfolio, including on-balance and off-balance sheet exposures, is actively monitored and analysed at the level of the overall portfolio of the Bank. Comprehensive analyses are regularly performed in terms of client segmentation, credit rating structure, arrears, and/or volume of non-performing/, stage 2 receivables, coverage with ECL allowances, collateral received, concentrations arising from a group of related clients and concentrations within an industry, currency exposure, and other indicators of risks in the credit portfolio. A lot of attention is put on regular monitoring of new deals and other changes or trends, with the emphasis on the early detection of increased risks and their optimisation in relation to profitability. The Bank appropriately diversifies its portfolio to mitigate specific components of credit risk (i.e. the risk deriving from operations with a specific customer, sector, positions in financial instruments, or other specific events).
Increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy.

3 Risk management (continued)
3.1 Credit risk management (continued)

The Bank assesses the level of credit risk losses on an individual basis for material claims, and at the collective level for the rest of the portfolio. Individual review is performed for material stage 3 financial assets, which have been rated as non-performing based on the information regarding significant financial problems encountered by a customer, regarding actual breaches of contractual obligations such as arrears in the settlement of liabilities, whether financial assets will be restructured for economic or legal reasons, and the likelihood that a customer will enter into bankruptcy or a financial reorganisation. Expected future cash flows (from ordinary operations and the possible redemption of collateral) are assessed following an individual review. If their discounted value differs from the book value of the financial asset in question, impairment must be recognised. Collective ECL allowances are made for the rest of the portfolio, which is not assessed on an individual basis. Based on IFRS9 requirements, financial assets valued at amortised cost are attributed to the appropriate stage based on the estimated increase of credit risk of a single exposure since initial recognition.

The stage of financial assets determines whether a 12-month or LECL has to be considered. The ECL calculation is based on the forward-looking PD and LGD, which is calculated using historic data and statistical modelling, as well as predicted macroeconomic parameters. For the off-balance financial assets, the probability of the redemption of exposures is taken into account when creating collective provisions. The models used to estimate future risk parameters are validated and back-tested by NLB d.d on a regular basis.

b) Main emphasis in 2021

The Bank introduced early collection line for private individuals in May 2021, which result with better collection and decrease of NPLs.

New disbursement was predominantly towards A and B rated clients. Individual review of corporates as well as macroeconomic assumptions were incorporated into IFRS 9 provision calculation, which contributed to one-off increase of pool provisions. As of 31 December 2021 NPL (EUR 59.7 million or MKD 3,679 million) Cost of Risk amounted-27 bps and is quite below budgeted 82bps.

Changes in the Methodology for forming collective impairments and provisions in NLB Banka AD Skopje refers to general updates of the methodology were applied as of 31 August 2021:

- There are introduced three scenarios with three different macro effects, namely Severe (pessimistic), Baseline (expected) and Mild (optimistic). Three ECLs are calculated, which at the end are weighted with scenario probabilities to get the final ECL. The weights of all three economic scenarios are used in the final step in the process of ECL calculation, ECL is obtained as a weighted average of ECL1, ECL2 and ECL3 (for Severe and Mild scenario is used 20% weight and for Baseline scenario is used 60% weight);

- As of 31 August 2021, PD values are obtained from NLB d.d Slovenia., for next 3 years based on long ratings for corporate segment and Sovereign and short ratings for retail segment (previous year - short rating for all portfolio);

- Also, as of 31 August 2021 introduced are the long rating criteria that should be considered for all legal entities (Corporates, Institutions or Central governments) where the long rating was available when the financial instrument was originated (Rating at approval). For the remaining financial assets and for all exposures to private individuals, significant increase of credit risk, stage transition is based on short rating scale.

3 Risk management (continued)
3.1 Credit risk management (continued)

c) Maximum exposure to credit risk

	31.12.2021	**31.12.2020**
Cash, cash balances at central banks and other demand deposits at banks	15,118,573	13,320,855
Financial assets measured at fair value through other comprehensive income	7,173,951	5,365,363
Financial assets measured at amortised cost		
- debt securities	12,827,964	12,585,703
- loans to government	232	59,390
- loans to banks	2,812,159	3,066,661
- loans to financial organisations	160,746	130,092
- loans to individuals	42,121,443	37,216,493
- loans to other customers	24,425,660	21,500,176
- other financial assets	1,519,621	1,527,084
Total net financial assets	**106,160,349**	**94,771,817**
Guarantees	8,223,997	7,288,438
Loan commitments	4,292,763	4,388,256
Other potential liabilities	1,606,862	905,371
Total contingent liabilities	**14,123,622**	**12,582,065**
Total maximum exposure to credit risk	**120,283,971**	**107,353,882**

Maximum exposure to credit risk is a presentation of the Bank’s exposure to credit risk separately by individual types of financial assets and conditional obligations. Exposures stated in the above table are shown for the balance sheet items in their net book value as reported in the statement of financial position, and for off-balance sheet items in the amount of their nominal value.

In the item “Cash, cash balances at central banks, and other demand deposits at banks” is included cash in amount of MKD 3,205,387 thousands (2020: MKD 3,050,597 thousands) which is not a credit risk bearing exposure.

3 Risk management (continued)
3.1 Credit risk management (continued)

d) Collateral from financial assets that are credit-impaired

31.12.2021	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets measured at amortised cost				
- loans to government	-	-	-	-
- loans to individuals	302,654	1,058,611	229,598	10,285
- loans to other customers	760,539	4,811,756	173,799	455,117
- other financial assets	1,940	299,090	15,159	359
Total	**1,065,133**	**6,169,457**	**418,556**	**465,761**

31.12.2020	Fully/over collateralised financial assets		Financial assets not or not fully covered with collateral	
	Net value of loans and advances	Fair value of collateral	Net value of loans and advances	Fair value of collateral
Financial assets measured at amortised cost				
- loans to government	-	-	-	-
- loans to individuals	350,910	1,201,931	97,408	9,884
- loans to other customers	552,406	3,660,910	244,592	399,381
- other financial assets	1,904	18,680	13,189	1,444
Total	**905,220**	**4,881,521**	**355,189**	**410,709**

e) Credit protection policy

The Bank applies a single set of standards to retail and corporate loan collateral, in accordance with regulatory requirements. The master document regulating loan collateral in the Bank is the Loan Collateral Policy. The Policy has been adopted by the Supervisory Board of the Bank. The Policy represents the basic principles that the employees must take into account when signing, evaluating, monitoring, and reporting collateral, with the aim of reducing credit risk. The market value of real estate and movable property used as collateral is obtained from valuation reports of licensed appraisers. The market value of financial instruments held by the Bank is obtained from the organised market – such as the stock exchange, for listed financial instruments or determined in accordance with the internal procedure for unlisted financial instruments.

The Bank obtains valuations from in-house certified appraisers and outsourced appraisers, all possessing the necessary licences. Appraisals must be made in accordance with the international valuation standards. When assuring collateral, the Bank follows the internal regulations which define the minimum security or pledge ratios. The Bank strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower’s rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral.

3 Risk management (continued)
3.1 Credit risk management (continued)

If real estate, movable property, and financial instruments serve as collateral, the Bank's lien on such assets should be top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can have a different priority order.
The Bank monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions.

f) The main types of collateral taken by the Bank

The Bank accepts different forms of material and personal security as loan collateral. Material loan collateral gives the right in case of the debtor (borrower) defaulting on their contractual obligations to sell specific property to recover claims, keep specific non-cash property or cash, or reduces or offsets the amount of exposure against the counterparty's debt to the Bank. Personal loan collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor (borrower) defaulting. Loans are very often secured by a combination of collateral types. The general recommendations on loan collateral are specified in the internal instructions and include the elements specified below. The decision on the type of collateral and the coverage of loan by collateral depends on the client's credit worthiness (credit ranking), loan maturity, and varies depending on whether the loan is granted to retail or a corporate client.

g) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral.
However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. The Bank has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience and regulatory guidelines.
The Bank pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, the Bank has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

The Bank has the largest concentration on collaterals arising from mortgages on real estate, which is a comparatively reliable and quality type of collateral; however, among others due to the falling real estate market prices in recent history, the Bank closely monitors the real-estate collateral values and, where required, establishes higher amounts of impairments and provisions for non-performing loans secured by real estate, based on estimated discounts of the real-estate value which are expected to be achieved in a sale (expected payment from collateral).

3 Risk management (continued)
3.1 Credit risk management (continued)

h) Credit quality analysis for financial assets and contingent liabilities

31.12.2021	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total
Debt securities measured at amortised cost					
A	-	-	-	-	**-**
B	12,893,380	-	-	-	**12,893,380**
C	-	-	-	-	**-**
D and E	-	-	-	-	**-**
Loss allowance	(65,416)	-	-	-	**(65,416)**
Carrying amount	12,827,964	-	-	-	**12,827,964**
Loans and advances to banks measured at amortised cost					
A	877,229	-	-	-	**877,229**
B	1,937,007	-	-	-	**1,937,007**
C	-	-	-	-	**-**
D and E	-	-	-	-	**-**
Loss allowance	(2,077)	-	-	-	**(2,077)**
Carrying amount	2,812,159	-	-	-	**2,812,159**
Loans and advances to customers measured at amortised cost					
A	43,750,253	510,318	17,088	-	**44,277,659**
B	19,226,885	837,707	1,933	-	**20,066,525**
C	528,956	1,721,019	152,058	-	**2,402,033**
D and E	-	-	3,675,379	-	**3,675,379**
Loss allowance	(985,737)	(347,924)	(2,379,854)	-	**(3,713,515)**
Carrying amount	62,520,357	2,721,120	1,466,604	-	**66,708,081**
Other financial assets measured at amortised cost					
A	269,252	1,030	25	-	**270,307**
B	1,219,111	3,785	5	-	**1,222,901**
C	828	14,624	4	-	**15,456**
D and E	-	-	40,162	-	**40,162**
Loss allowance	(5,118)	(995)	(23,092)	-	**(29,205)**
Carrying amount	1,484,073	18,444	17,104	-	**1,519,621**
Debt instruments measured at fair value through other comprehensive income					
A	1,197,057	-	-	-	**1,197,057**
B	5,851,859	-	-	-	**5,851,859**
C	-	-	-	-	**-**
D and E	-	-	-	-	**-**
Loss allowance	(23,320)	-	-	-	**(23,320)**
Contingent liabilities					
A	7,105,051	32,764	406	-	**7,138,221**
B	6,226,127	119,014	-	-	**6,345,141**
C	205,659	288,525	3	-	**494,187**
D and E	-	-	146,073	-	**146,073**
Loss allowance	(204,331)	(27,335)	(76,048)	-	**(307,714)**
Carrying amount	13,332,506	412,968	70,434	-	**13,815,908**

3 Risk management (continued)
3.1 Credit risk management (continued)

31.12.2020	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit-impaired	Purchased credit-impaired financial assets	Total
Debt securities measured at amortised cost					
A	-	-	-	-	**-**
B	12,695,094	-	-	-	**12,695,094**
C	-	-	-	-	**-**
D and E	-	-	-	-	**-**
Loss allowance	(109,391)	-	-	-	**(109,391)**
Carrying amount	12,585,703	-	-	-	**12,585,703**
Loans and advances to banks measured at amortised cost					
A	1,383,369	-	-	-	**1,383,369**
B	1,688,006	-	-	-	**1,688,006**
C	-	-	-	-	**-**
D and E	-	-	-	-	**-**
Loss allowance	(4,714)	-	-	-	**(4,714)**
Carrying amount	3,066,661	-	-	-	**3,066,661**
Loans and advances to customers measured at amortised cost					
A	38,008,730	1,551,304	-		**39,560,034**
B	15,030,547	1,787,080	1,061	-	**16,818,688**
C	169,109	2,392,296	37,801	-	**2,599,206**
D and E	(313)	(620)	3,890,052	-	**3,889,119**
Loss allowance	(779,586)	(497,714)	(2,683,596)	-	**(3,960,896)**
Carrying amount	52,428,487	5,232,346	1,245,318	-	**58,906,151**
Other financial assets measured at amortised cost					
A	331,951	1,376	-	-	**333,327**
B	1,168,057	772	3	-	**1,168,832**
C	395	13,816	33	-	**14,244**
D and E	143	-	44,685	-	**44,828**
Loss allowance	(3,876)	(646)	(29,625)	-	**(34,147)**
Carrying amount	1,496,670	15,318	15,096	-	**1,527,084**
Debt instruments measured at fair value through other comprehensive income					
A	-	-	-	-	**-**
B	5,332,440	-	-	-	**5,332,440**
C	-	-	-	-	**-**
D and E	-	-	-	-	**-**
Loss allowance	(39,602)	-	-	-	**(39,602)**
Contingent liabilities					
A	5,317,240	30,897	-	-	**5,348,137**
B	6,434,090	260,565	-	-	**6,694,655**
C	120,324	296,323	5	-	**416,652**
D and E	-	-	122,621	-	**122,621**
Loss allowance	(140,850)	(39,926)	(60,648)	-	**(241,424)**
Carrying amount	11,730,804	547,859	61,978	-	**12,340,641**

3 Risk management (continued)
3.1 Credit risk management (continued)

The Bank's client credit rating classification is based on rating methodology that includes a uniform credit grade scale of 12 rating classes, out of which nine represent performing clients and three non-performing clients.

Rating Group A (AAA to A rating classes) includes the best clients with a low degree of default probability, characterised by high capital adequacy and a high coverage of financial liabilities with free cash flow. Rating Group A is considered as investment grade classification.

Rating Group B (BBB to B rating classes) includes clients with a low credit risk, one class higher than A rating group clients. These clients show stable performance, acceptable financial ratios, and qualitative elements and have a sufficient cash flow to settle their obligations, but they are more sensitive to changes in the industry or the economy. The Rating Group B classification is an investment grade for BBB, and an "invest with care" for BB and B.

Rating Group C (CCC to C rating classes) includes clients who are exposed to a higher and above-average level of credit risk. Sometimes CCC rated clients are financed by the Bank, as support brings more positive effects, however, Rating Group C is overall considered as a substantial risk. The Bank reasonably restricts cooperation with such clients and decreases its exposure to them.

Rating Group D (D and DF rating classes) and E represents non-performing clients that are treated as defaulted.
D, DF, and E rating classified clients are ordinarily transferred to the specialised units for restructuring (which performs business and financial restructuring with a goal of minimising losses and restoring the client to a performing status) or workout and legal support (with the goal of minimising losses due to default).

i) Overview of modified and forborne loans

From a risk management point of view, once an asset is forborne or modified, the Bank's credit risk department continues to monitor the exposure until it is completely and ultimately derecognised.

The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification loss suffered by the Bank.

	2021	**2020**
Amortised cost of financial assets modified during the period	256,069	282,341
Net modification loss	(10,819)	(8,073)

The Bank doesn't have modified financial assets for which loss allowance has changed to 12m ECL measurement during the period.

3 Risk management (continued)
3.1 Credit risk management (continued)

The following tables provide a summary of the Bank's forborne loans.

31.12.2021	All forborne exposures				Impairment, provisions and value adjustments		
			Non- performing				
	Total	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**2,042,727**	**728,907**	**1,313,820**	**-**	**(144,070)**	**(843,240)**	**3,987,878**
- households	**150,071**	71,377	78,694	-	(15,495)	(30,399)	192,223
- non-financial organisations	**1,892,656**	657,530	1,235,126	-	(128,575)	(812,841)	3,795,655
Other financial assets	**946**	**946**	**-**	**-**	**(846)**	**-**	**139,060**
Total exposures with forbearance measures	**2,043,673**	**729,853**	**1,313,820**	**-**	**(144,916)**	**(843,240)**	**4,126,938**

31.12.2020	All forborne exposures				Impairment, provisions and value adjustments		
			Non- performing				
	Total	Performing	Impaired	Defaulted	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures
Loans and advances (including at amortised cost and fair value)	**1,655,383**	**986,448**	**668,935**	**-**	**(399,657)**	**(468,846)**	**2,220,678**
- households	**131,273**	31,319	99,954	-	(464)	(57,200)	176,677
- non-financial organisations	**1,524,110**	955,129	568,981	-	(399,193)	(411,646)	2,044,001
Other financial assets	**354**	**354**	**-**	**-**	**(305)**	**-**	**299**
Total exposures with forbearance measures	**1,655,737**	**986,802**	**668,935**	**-**	**(399,962)**	**(468,846)**	**2,220,977**

Forborne exposures by periods of restructuring

31.12.2021	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	139,709	41,912	171,823	231,493
Non-performing exposures	(1)	94,378	93,672	282,531
Total exposures with forbearance measures	**139,708**	**136,290**	**265,495**	**514,024**

31.12.2020	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 12 months**
Performing exposures	139,725	120,234	51,275	275,606
Non-performing exposures	318	7,261	3,434	189,076
Total exposures with forbearance measures	**140,043**	**127,495**	**54,709**	**464,682**

3 Risk management (continued)
3.1 Credit risk management (continued)

Forborne exposures by stage

31.12.2021	Gross amount of forborne loans			ECL		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
- households	32,630	117,441	150,071	15,386	30,169	45,554
- non-financial organisations	439,631	1,453,025	1,892,656	95,921	844,847	940,768
Total forborne loans	**472,261**	**1,570,466**	**2,042,727**	**111,306**	**875,016**	**986,322**

31.12.2020	Gross amount of forborne loans			ECL		
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
- households	11,417	119,856	131,273	462	57,202	57,664
- non-financial organisations	542,877	981,233	1,524,110	119,128	691,711	810,839
Total forborne loans	**554,294**	**1,101,089**	**1,655,383**	**119,590**	**748,913**	**868,503**

Main forbearance measurements, used by the Bank are deferral of payment, reduction of interest rates, acquisition of collateral for partial repayment of claims and others, either as a single forbearance measurement or as a combination of those.

j) Analysis of loans and advances by industry sectors

	31.12.2021				31.12.2020			
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	2,814,236	(2,077)	2,812,159	3.96%	3,071,375	(4,714)	3,066,661	4.83%
Finance	161,989	(1,243)	160,746	0.23%	130,450	(358)	130,092	0.20%
Electricity, gas and water	1,058,257	(159,840)	898,417	1.26%	812,802	(153,685)	659,117	1.04%
Construction industry	3,837,581	(319,008)	3,518,573	4.95%	2,791,056	(287,811)	2,503,245	3.94%
Heavy industry	6,510,829	(636,646)	5,874,183	8.27%	6,556,680	(733,475)	5,823,205	9.17%
Education	68,478	(23,962)	44,516	0.06%	76,447	(13,165)	63,282	0.10%
Agriculture, forestry and fishin	790,001	(33,930)	756,071	1.06%	1,015,291	(194,636)	820,655	1.29%
Public sector	268	(65)	203	0.00%	61,183	(1,795)	59,388	0.09%
Individuals	43,201,396	(1,079,956)	42,121,440	59.29%	38,564,757	(1,348,266)	37,216,491	58.61%
Mining	159,217	(4,390)	154,827	0.22%	103,737	(2,299)	101,438	0.16%
Entrepreneurs	-	-	-	0.00%	-	-	-	0.00%
Services	4,241,769	(481,515)	3,760,254	5.29%	3,085,717	(391,911)	2,693,806	4.24%
Transport and communicatioı	1,307,577	(159,190)	1,148,387	1.62%	1,182,404	(170,565)	1,011,839	1.59%
Trade industry	8,890,788	(801,034)	8,089,754	11.39%	8,116,400	(643,340)	7,473,060	11.77%
Health care and social securi	193,446	(12,736)	180,710	0.25%	370,123	(19,590)	350,533	0.55%
Other financial assets	1,548,826	(29,205)	1,519,621	2.14%	1,561,231	(34,147)	1,527,084	2.40%
Total	**74,784,658**	**(3,744,797)**	**71,039,861**	**100.00%**	**67,499,653**	**(3,999,757)**	**63,499,896**	**100.00%**

k) Analysis of loans and advances by geographical sectors

Country	31.12.2021	31.12.2020
Republic of North Macedonia	68,447,700	60,621,951
European Union members	1,564,796	1,840,973
Other countries	1,027,365	1,036,972
Total	**71,039,861**	**63,499,896**

3 Risk management (continued)
3.1 Credit risk management (continued)

3.1.1 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills. Issuers of the investment securities are the National Bank of the Republic of North Macedonia, Republic of North Macedonia, Kingdom of Spain and Republic of Ireland.

An analysis of debt instruments, treasury bills and other type of investment bills is shown in notes 20 and 22. Standard & Poor's Ratings Services assigned Republic of Macedonia's sovereign foreign and local currency long/short term ratings of "BB-/B" with stable outlook and Fitch's Ratings Agency assigned its sovereign foreign and local currency long term issuer default rating of "BB+" with negative outlook and foreign and local currency short term rating of "B".

31.12.2021	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
National Bank of Republic of North Macedonia	1,725,827	-	1,725,827
Republic of North Macedonia	4,121,154	12,827,964	16,949,118
EU members			
- Republic of Ireland	585,983	-	585,983
- Kingdom of Spain	615,952	-	615,952
Total	**7,048,916**	**12,827,964**	**19,876,880**

31.12.2020	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
National Bank of Republic of North Macedonia	1,692,984	-	1,692,984
Republic of North Macedonia	3,639,456	12,585,703	16,225,159
Total	**5,332,440**	**12,585,703**	**17,918,143**

3.1.2 Foreclosed collateral

During 2021 and 2020, the Bank obtained assets by taking possession of collateral held as security, as follows:

	Carrying amount	
Nature of assets	**2021**	**2020**
Land	93	-
Buildings	99	-
Equipment	37	-
Total (note 27)	**229**	**-**

Foreclosed collateral include land, buildings, equipment and business premises, which are not used by the Bank for its core operations. With the proceeds, the Bank reduces the outstanding claim. Foreclosed collaterals are sold as soon as is practicable.

3 Risk management (continued)
3.1 Credit risk management (continued)

3.1.3 Presentation of net financial instruments by measurement category

31.12.2021	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
Cash and obligatory reserves with central banks and other demand deposits at banks	-	15,118,573	**15,118,573**
Securities	**7,173,951**	**12,827,964**	**20,001,915**
- bonds	4,737,106	12,233,141	**16,970,247**
- shares	125,035	-	**125,035**
- bills	2,311,810	594,823	**2,906,633**
Loans and receivables	**-**	**69,520,240**	**69,520,240**
- loans to government	-	232	**232**
- loans to banks	-	2,812,159	**2,812,159**
- loans to financial organization	-	160,746	**160,746**
- loans to individuals	-	42,121,443	**42,121,443**
- loans to other customers	-	24,425,660	**24,425,660**
Other financial assets	-	1,519,621	**1,519,621**

31.12.2020	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
Cash and obligatory reserves with central banks, and other demand deposits at banks	-	13,320,855	**13,320,855**
Securities	**5,365,363**	**12,585,703**	**17,951,066**
- bonds	3,639,456	11,188,288	**14,827,744**
- shares	32,923	-	**32,923**
- bills	1,692,984	1,397,415	**3,090,399**
Loans and receivables	**-**	**63,499,896**	**63,499,896**
- loans to government	-	59,390	**59,390**
- loans to banks	-	3,066,661	**3,066,661**
- loans to financial organization	-	130,092	**130,092**
- loans to individuals	-	37,216,493	**37,216,493**
- loans to other customers	-	21,500,176	**21,500,176**
Other financial assets	-	1,527,084	**1,527,084**

3 Risk management (continued)

3.2 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) or in parameters that affect prices (volatilities and correlations), will affect the Bank's income or the value of its holdings of financial instruments. Losses may impact profit or loss directly, for example in the case of trading book positions. However, for financial assets classified through OCI market value loss are reflected in the revaluation reserve. The exposure to the market risk is to a certain degree integrated into the banking industry and offers an opportunity to create financial results and value. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Risk, Evaluation and Control Division is independent from the trading activities. Exposures and limits are monitored daily and reported to Assets and Liabilities Committee ("ALCO") and other relevant decision – making bodies on a regular basis.

The Bank uses a wide selection of quantitative and qualitative tools for measuring, managing and reporting market risks such as value-at-risk (VaR), sensitivity analysis, stress testing, back- testing, scenarios, other market risk mitigants (concentration of exposures, gap limits etc.), net interest income sensitivity, economic value of equity and economic capital. Stress testing provides an indication of the potential losses that could occur in severe market conditions.

In the area of currency risk, the Bank pursues the goal of low to medium exposure. The Bank monitors its foreign exchange open position on an ongoing basis. The orientation of the Bank in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. The conclusion of transactions involving derivatives is limited to the servicing of the clients' and hedging of the Bank's own open positions. In accordance with the guidelines from NLB d.d., the Bank does not have a trading book.

Regarding the market risk monitoring and managing, uniform methodologies and exposure limits are set according to local regulation and guidelines from NLB d.d. Pursuant to the relevant policies, the Bank must monitor and manage exposure to market risks and report to NLB d.d. accordingly. The exposure is regularly monitored and reported to the local ALCO and NLB Group ALCO.

3.2.1 Foreign exchange risk

The Bank is exposed to currency risk through transactions in foreign currencies. Foreign currency risk is a risk of the potential losses from the open foreign exchange positions due to the changes of the foreign currency rates. The exposures to the movement of the foreign exchange (FX) rates have impact on the financial position and cash flows of the Bank. The Bank measures and manages the currency risk with a usage of combination of sensitivity analysis, VaR, scenarios, and stress testing.

The Bank is responsible for its own Currency Risk Management Policy, which also includes a limit system and is in line with the parent Bank's guidelines and standards, as well as local regulatory requirements. The policy is confirmed by the Supervisory board. The Risk, Evaluation and Control Division monitors Bank's currency risk exposure on a daily basis. The Financial Market and Treasury Division manages foreign exchange positions on the currency level so that they are always within the limits or closed. Exposure to currency risks is discussed at daily liquidity meetings, monthly ALCO meetings and quarterly meetings of the Supervisory Board.

3 Risk management (continued)
3.2 Market risk (continued)
3.2.1 Foreign exchange risk (continued)

The Bank follows the guidelines from NLB d.d. regarding the FX lending. The guidelines' goal is to address risks stemming from the potential excessive growth of FX lending, to identify hidden risks, and tail-event risks related to FX lending, to mitigate the respective risk, to internalise the respective costs, and to hold adequate capital with respect to FX lending.

a) The amount of financial instruments denominated in all the currencies

31.12.2021

	EUR	USD	CHF	MKD	OTHER	Total
Financial assets						
Cash, cash balances at central bank and demand deposits at banks	5,258,050	833,469	988,735	7,211,322	826,997	15,118,573
Financial assets measured at fair value through other comprehensive income	5,325,277	75,052	-	1,773,622	-	7,173,951
Financial assets measured at amortised cost	-	-	-	-	-	
- debt securities	1,014,431	-	-	11,813,533	-	12,827,964
- loans and advances to banks	308,312	1,522,303	713,291	70,737	197,516	2,812,159
- loans and advances to customers	24,922,393	181,750	-	41,600,126	3,812	66,708,081
- other financial assets	77,412	1,903	74	1,440,130	102	1,519,621
Total financial assets	**36,905,875**	**2,614,477**	**1,702,100**	**63,909,470**	**1,028,427**	**106,160,349**
Financial liabilities						
Financial liabilities measured at amortised cost						
- deposits from banks	195,629	19,046	27,407	87,602	63,056	392,740
- deposits from customers	31,426,708	3,391,926	1,161,272	49,237,889	899,928	86,117,723
- other borrowed funds	1,518,935	-	-	-	-	1,518,935
- subordinated liabilities	2,768,342	-	-	-	-	2,768,342
- other financial liabilities	528,323	100,730	55,990	1,656,078	13,557	2,354,678
Total financial liabilities	**36,437,937**	**3,511,702**	**1,244,669**	**50,981,569**	**976,541**	**93,152,418**
Net on-balance sheet financial position	**467,938**	**(897,225)**	**457,431**	**12,927,901**	**51,886**	**13,007,931**
Net financial positions	**467,938**	**(897,225)**	**457,431**	**12,927,901**	**51,886**	**13,007,931**
31.12.2020						
Total financial assets	**30,550,652**	**3,138,898**	**1,071,314**	**59,075,426**	**935,527**	**94,771,817**
Total financial liabilities	**29,274,698**	**3,061,182**	**1,046,462**	**48,528,060**	**952,502**	**82,862,904**
Net on-balance sheet financial position	**1,275,954**	**77,716**	**24,852**	**10,419,291**	**(16,975)**	**11,908,913**
Net financial position	**1,275,954**	**77,716**	**24,852**	**10,419,291**	**(16,975)**	**11,908,913**

3 Risk management (continued)
3.2 Market risk (continued)
3.2.1 Foreign exchange risk (continued)

b) FX sensitivity analysis

	31.12.2021	31.12.2020
AUD	+/- 4.5%	+/- 15.5%
CAD	+/- 5.0%	+/- 9.5%
CHF	+/- 3.0%	+/- 3.5%
DKK	+/- 0.5%	+/- 0.5%
EUR	+/- 0.5%	+/- 0.5%
GBP	+/- 3.5%	+/- 12.0%
JPY	+/- 4.0%	+/- 7.0%
NOK	+/- 5.5%	+/- 23.0%
SEK	+/- 4.5%	+/- 5.5%
USD	+/- 4.0%	+/- 6.0%
Other	+/- 6.0%	+/- 15.5%

* Sensitivity percentages for scenarios are taken as the highest monthly volatility of exchange rate in one year, respectively for 2021 and 2020.

	31.12.2021		31.12.2020	
	Effects on income statement	Effects on other comprehensive income	Effects on income statement	Effects on other comprehensive income
Apreciation of				
AUD	293	-	739	-
CAD	231	-	410	-
CHF	3,201	-	1,057	-
DKK	2	-	8	-
EUR	(722)	(20,150)	(5,332)	(17,816)
GBP	769	-	699	-
JPY	(33)	-	(24)	-
NOK	786	-	1,010	-
SEK	439	-	377	-
USD	(4,248)	-	(16)	-
Other	(171)	-	(375)	-
Effects on comprehensive income	**547**	**(20,150)**	**(1,447)**	**(17,816)**
Depreciation of				
AUD	(293)	-	(739)	-
CAD	(231)	-	(410)	-
CHF	(3,201)	-	(1,057)	-
DKK	(2)	-	(8)	-
EUR	722	20,150	5,332	17,816
GBP	(769)	-	(699)	-
JPY	33	-	24	-
NOK	(786)	-	(1,010)	-
SEK	(439)	-	(377)	-
USD	4,248	-	16	-
Other	171	-	375	-
Effects on comprehensive income	**(547)**	**20,150**	**1,447**	**17,816**

3 Risk management (continued)
3.2 Market risk (continued)

3.2.2 Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in different amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest.
Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is asset sensitive because of the majority of the interest-bearing assets.

Interest rate risk is the risk to the capital and profit or loss of the Bank arising from changes in market interest rates. Interest rate risk management of the Bank includes all interest rate-sensitive on- and off-balance sheet assets and liabilities of the Bank's banking book, taking into account the positions in each currency. Interest rate risk management in the Bank is adopted in accordance with the Risk Appetite and Risk Strategy of the Bank, NLB d.d. guidelines and the local regulatory requirements.

The interest rate risk in the banking book is measured and monitored within a framework of Interest rate risk management policy that establishes consistent methodologies, models, and limit systems. The Bank manages interest rate risk exposure through application of two main measures:

- economic value sensitivity (EVE) – using BPV method (Basis Point Value), which measures the extent to which the value of the portfolio would change if interest rates change according to the scenario and
- sensitivity of net interest income (NII) – using EaR method (Earnings at Risk), which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure.

The Bank regularly measures interest rate risk exposure in the banking book under various standardised and additional scenarios of changes in level and shape of interest rate yield curve, including all significant sources of risk, taking into account behavioural and modelling assumptions. Part of non-maturing deposits, which is considered as core part is allocated long-term by using replicating portfolio. Optionality risk is mainly derived from behavioural options, reflecting in prepayments and withdrawals, and possible embedded options such as caps and floors. Moreover, in light of expected cash flows, non-performing exposures, as well as off-balance sheet items are considered when measuring interest rate risk exposure. Optionality models are, to a large extent, based on linear regression using the historical data as input.

The interest rate risk is closely measured, monitored, and managed within approved risk limits and controls. The Bank manages interest rate positions and stabilises its interest rate margin primarily with the pricing policy and a fund transfer pricing policy. An important part of the interest rate risk management is presented by the banking book securities portfolio, whose primary purpose is to maintain adequate liquidity reserves, while it also contributes to the stability of the interest rate margin, which is why valuation risk has been included in interest rate risk management model of the Bank.

Interest rate risk exposure arises mainly from banking book positions; particularly in a current low interest rate environment, where the Bank recorded an increased volume of fixed and floating interest rate loans (while decreasing adjustable interest rate loans, due to the implementation of NBRNM recommendation for excluding the adjustable interest rates in the new loan and deposit contracts) and long-term banking book securities on the assets side and transformation of deposits from term to sight, on the liabilities side. In decreasing interest rate environments, margins earned narrow as liabilities interest rates

3 Risk management (continued)
3.2 Market risk (continued)
3.2.2 Interest rate risk (continued)

decrease with a lower percentage compared to assets interest rates. However, the actual effect depends on various factors, including stability of the economy, environment and level of the inflation.

The Bank manages interest rate risk in accordance with the Interest Rate Risk Management Policy. The Interest Rate Risk Management Policy of the Bank is the risk framework designed by the Risk Management Department in accordance with the Risk Appetite of the Bank, NLB d.d. guidelines (based on recommendations of the European Central Bank, Basel Committee on Banking Supervision and European Banking Association) and the Decision on managing interest rate risk in banking book by the NBRNM. The Interest Rate Risk Management Policy includes limit system and is in line with the NLB Group Risk Management Standards.

Interest rate risk in the banking book is measured, monitored, and reported monthly in the Bank, by Risk Management Department, while positions are managed by Financial Market and Treasury Division. Exposure to interest rate risk is reported monthly by Risk Management Department to NLB d.d., ALCO and Risk Management Board and quarterly to the Supervisory Board of the Bank.

Non-interest bearing loans and advance to banks and other customers in the table below is related to non-performing loans, modification and advance payments for not matured loans.

a) Analysis of financial instruments according to the exposure to interest rate risk

Analysis of the financial assets and liabilities of the Bank into relevant maturity groups based on the remaining period to the next date, at which interest rates may be changed, is set out below:

31.12.2021	Non-interest bearing	Interest bearing	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial assets								
Cash, cash balances at central bank and other demand deposits at banks	14,590,459	528,114	528,114	-	-	-	-	**15,118,573**
Financial assets measured at fair value through other comprehensive income	606,895	6,567,056	2,141,653	586,041	-	3,839,362	-	**7,173,951**
Financial assets measured at amortised cost								
- debt securities	-	12,827,964	109,278	-	2,081,706	9,091,404	1,545,576	**12,827,964**
- loans and advances to banks	317	2,811,842	1,900,753	911,089	-	-	-	**2,812,159**
- loans and advances to customers	953,448	65,754,633	25,614,586	1,759,733	10,089,289	22,443,251	5,847,773	**66,708,081**
- other financial assets	1,519,621	-	-	-	-	-	-	**1,519,621**
Total financial assets	**17,670,740**	**88,489,609**	**30,294,384**	**3,256,863**	**12,170,995**	**35,374,017**	**7,393,349**	**106,160,349**
Financial liabilities								
Financial liabilities measured at amortised cost								
- deposits from banks	-	392,740	392,740	-	-	-	-	**392,740**
- deposits from customers	-	86,117,723	72,170,255	1,847,407	8,014,756	4,085,305	-	**86,117,723**
- other borrowed funds	-	1,518,935	961,793	435,000	74,226	47,831	-	**1,518,935**
- subordinated liabilities	-	2,768,342	1,721	-	2,766,621	-	-	**2,768,342**
- other financial liabilities	2,354,678	-	-	-	-	-	-	**2,354,678**
Total financial liabilities	**2,354,678**	**90,797,740**	**73,526,509**	**2,282,407**	**10,855,603**	**4,133,136**	**-**	**93,152,418**
Total interest repricing gap			**(43,232,125)**	**974,456**	**1,315,392**	**31,240,881**	**7,393,349**	

3 Risk management (continued)
3.2 Market risk (continued)
3.2.2 Interest rate risk (continued)

31.12.2020	Non-interest bearing	Interest bearing	Up to 1 month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 5 Years	Over 5 Years	Total
Financial assets								
Cash, cash balances at central bank and other demand deposits at banks	12,913,040	407,815	407,815	-	-	-	-	**13,320,855**
Financial assets measured at fair value through other comprehensive income	338,629	5,026,734	1,769,291	-	185,082	1,838,481	1,233,880	**5,365,363**
Financial assets measured at amortised cost								
- debt securities	-	12,585,703	567,340	1,147,977	2,134,593	8,088,871	646,922	**12,585,703**
- loans and advances to banks	316	3,066,345	1,835,474	1,230,871	-	-	-	**3,066,661**
- loans and advances to customers	715,912	58,190,239	23,994,224	1,532,643	10,677,607	18,350,878	3,634,887	**58,906,151**
- other financial assets	1,527,084	-	-	-	-	-	-	**1,527,084**
Total financial assets	**15,494,981**	**79,276,836**	**28,574,144**	**3,911,491**	**12,997,282**	**28,278,230**	**5,515,689**	**94,771,817**
Financial liabilities								
Financial liabilities measured at amortised cost								
- deposits from banks	-	371,319	371,319	-	-	-	-	**371,319**
- deposits from customers	-	79,336,725	60,607,243	3,034,077	10,957,743	4,737,662	-	**79,336,725**
- other borrowed funds	-	422,376	122,528	89,494	126,791	83,176	387	**422,376**
- subordinated liabilities	-	1,848,018	1,374	-	1,846,644	-	-	**1,848,018**
- other financial liabilities	884,466	-	-	-	-	-	-	**884,466**
Total financial liabilities	**884,466**	**81,978,438**	**61,102,464**	**3,123,571**	**12,931,178**	**4,820,838**	**387**	**82,862,904**
Total interest repricing gap			**(32,528,320)**	**787,920**	**66,104**	**23,457,392**	**5,515,302**	

Cash flows are presented by taking into account their contractual maturity and according to the amortisation schedule (based on the remaining period to the next date at which interest rates may be changed). Financial instruments without maturity such as sight deposits are presented in gap up to 1 month, while financial instruments with expired maturity such as non-performing loans are presented in gap Non-interest bearing, irrespective of their behavioral characteristics and the Bank's expectations. For the purpose of risk management, the Bank uses different cash flows modelling techniques.

b) Net interest income sensitivity analysis and an economic view of interest rate risk in the banking book

The analysis of interest income sensitivity for the horizon of the next 12 months assumes sudden parallel shock down in interest rates by 100 basis points for MKD, EUR, USD, CHF and OTHER significant currencies. The analysis is based on the assumption that the positions used remain unchanged. The assessment of the impact of a change in interest rates of 100 basis points on the amount of net interest income of the banking book position:

3 Risk management (continued)
3.2 Market risk (continued)
3.2.2 Interest rate risk (continued)

2021	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity			
MKD	130,779	96,079	171,587
EUR	23,647	16,693	37,669
USD	3,033	2,443	3,495
CHF	(4)	(6)	(1)
OTHER	(164)	(313)	(32)

2020	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity			
MKD	159,126	133,385	187,356
EUR	24,314	19,395	35,029
USD	6,982	2,201	19,432
CHF	(1)	(2)	(1)
OTHER	(315)	(338)	(292)

The values in the table are calculated on the basis of monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve by 100 basis points represents a realistic and practical scenario. The “average” value represents the arithmetic mean of monthly calculations, while the “maximum” and “minimum” values represent the highest and lowest values calculated during the period. The negative values for CHF and OTHER currencies represent positive effect of a change in interest rates by 100 basis points on the amount of net interest income.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e. changes of the required return. The BPV is the measurement of the change in the market value of a position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. The BPV method is used to assess the change in the value of a position in case market interest rates change given the six prescribed parallel and non-parallel shock scenarios.

3 Risk management (continued)
3.2 Market risk (continued)
3.2.2 Interest rate risk (continued)

The assessment of the impact of a change in interest rates according to the current scenario, on the economic value of the banking book position:

2021	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest rate risk in banking book - BPV	486,534	345,657	907,706
Interest rate risk in banking book - BPV, as % of equity	4.59%	3.36%	9.12%

2020	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest rate risk in banking book - BPV	422,355	258,932	587,585
Interest rate risk in banking book - BPV, as % of equity	4.29%	2.69%	5.96%

The values in the table have been calculated on the basis of monthly calculations of interest rate gaps. The applied sudden shift of the yield curve is according to the scenario with highest negative effect on the value of BPV ratio (Parallel increase by 200 bp/400 bp for MKD currency and Flattener shock). The “average” value represents the arithmetic mean, while the “maximum” and “minimum” values represent the highest and lowest values calculated during the period. The calculation takes into the account allocation of the core part of non-maturing deposits and other behavioural assumptions.

Exposure to interest rate risk of the banking book mainly arises from investments in loans with fixed and floating interest rates and long-term debt securities, as well as from transformation of term to sight deposits, due to the low interest rates of deposits.

3.2.3 Risk of changes in prices in the portfolio of equity securities in the banking book

The Bank’s financial instruments trading strategy includes guidelines for the effective management of risks associated with equity investments. Trading with equity securities is not permitted in subsidiaries. Only stockbrokerage services are provided.

In terms of equity security investments, the Bank has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. The carrying value of the equities’ portfolio in the banking book of the Bank is presented in note 20.

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. It represents the risk that the Bank is unable to meet all of its actual and potential payments or collateral posting obligations, as well as the risk that the Bank is unable to fund the growth of assets at reasonable prices, or only at excessive cost. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3 Risk management (continued)
3.3 Liquidity risk (continued)

There are two types of liquidity risk:
- funding liquidity risk is the risk of not being able to accommodate both expected and unexpected current and future cash outflows and collateral needs because insufficient cash is available. Eventually, this will affect the Bank’s daily operations or its financial conditions;
- market liquidity risk is a risk that the Bank cannot sell an asset on time at a reasonable price due to insufficient market depth (insufficient supply and demand) or market disruptions. Market risk includes the sensitivity in liquidity value of a portfolio due to changes in the applicable HC and market value.

Liquidity risk is defined as an important risk type, which has to be managed carefully. The Bank has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. A set of liquidity risk metrics and limits are formulated in order to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding and holding a solid liquidity buffer, the Bank maintains a sound and robust liquidity position, even under severely adverse conditions.
The Supervisory Board approves the Liquidity Risk Management Policy, which outlines the key principles for the Bank’s liquidity management. ALCO receives a regular report on the liquidity position and the performance against approved limits and targets. ALCO oversees the development of the Bank’s funding and liquidity position and decides on liquidity risk-related issues.

Risk tolerance for liquidity risk is low, therefore the Bank maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. The Bank measures and manages its liquidity in three stages:
- current exposure and compliance with the limits;
- forward-looking and stress testing;
- liquidity in exceptional circumstances.

The objectives of monitoring and managing liquidity risk in the Bank are as follows:
- to ensure sufficient amount of liquidity for the settlement of all the Bank’s liabilities;
- to ensure adequate procedures and methods for monitoring and managing the Bank's liquidity;
- to ensure adequate control environment;
- to establish a system of regular reporting and informing the Assets and Liabilities Committee of the Bank and other competent bodies / regulator;
- to define liquid assets and determine an adequate amount of counterbalancing capacity and optimal management;
- to ensure regular projections of future cash flows and stress-testing of liquidity risk;
- to ensure compliance of this Policy with the Risk Appetite and the Liquidity Contingency Plan.

According to guidelines from the parent company NLB d.d., overall assessment of the liquidity position is assessed in the ILAAP at least once per year. It includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. The Bank maintains a sufficient amount of liquidity reserves in the form of cash, securities issued by the government and NBRNM and placements in banks. In the current situation, the Bank also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. The Bank regularly performs stress - tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. In addition, special attention is given to the monitoring and reporting of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), prepared according to guidelines from NLB d.d.

3 Risk management (continued)
3.3 Liquidity risk (continued)

LCR remains high and stable, well above minimum requirements and internal warning levels (308%). Internal: min 130%, Amber ≤120%, Red: ≤105%. According to the LCR composition, the main drivers resulting in high LCR are:

- high quality liquid assets (HQLA) contain securities issued by Government and NBRNM and cash;
- stabile NBS deposit base; outflows that could occur are mostly NBS sight deposits that are considered rather stable;
- inflows represent mostly high liquid assets on giro accounts in top graded banks and inflows from NBS performing loans.

NSFR ratio was within the prescribed warning levels and had stable trend in the given market environment (165%). NSFR demonstrates strong and stable funding structure.

The main drivers resulting in high NSFR:

- available stable funding are mostly retail deposits, corporate deposits and capital representing of available stable funding;
- required stable funding are mostly performing loans to households and corporate loans.

Beginning 31 March 2021, NLB d.d Ljubljana prepares for the Bank liquidity reverse stress test. Reverse stress testing provides additional insight into the risk position of the Bank as well as potential future management actions. The results show how many outflows would have to occur and when so that the Bank no longer survives the stress.
The reverse stress test concept is based on the linear increase of the outflow rates until the 3 months surplus falls below 0; at that point, the Bank no longer has sufficient liquidity reserves to survive 3 months stress period.
Run-off rates for reverse stress test are calculated for 1 week, 1 month, 2 months and 3 months period.
Reverse stress tests explore scenarios that could potentially lead banks to fail and help banks to identify core vulnerabilities.
In the reverse scenario we assume combined stress, arising from changed market-wide conditions and bank-specific idiosyncratic reasons.

The liquidity risk management also includes preparing additional reports according to the requirements of the local regulator. According to local regulation, the Bank prepared ILAAP in 2021.

During 2021, the Bank regularly determined the Liquidity Coverage Ratio (LCR), which is within the legally established limit, ie above it.

The Bank manages its liquidity position (liquidity within one day) daily, for a period of several days or weeks in advance, based on the planning and monitoring of cash flows. The Bank is responsible for its own liquidity position and carries out the following activities:

- managing intraday liquidity;
- planning and monitoring cash flows;
- monitoring and complying with the liquidity regulations of the NBRNM;
- adopting business decisions;
- forming and managing liquidity reserves;
- performing liquidity stress test to define the liquidity buffer for smooth functioning of the payment system in stressed circumstances.

The Bank actively manages liquidity over the course of a day, taking into account the characteristics of payment settlements to ensure the timely settlement of liabilities in normal and stressed circumstances.

3 Risk management (continued)
3.3 Liquidity risk (continued)

The Bank has defined a liquidity management plan for exceptional circumstances (Liquidity Contingency Plan) that lies down guidelines and a plan of activities for recognising problems, searching for solutions, and handling exceptional circumstances. It also provides for the establishment of a system of liquidity management that ensures the maintenance of Bank's liquidity and protects the commercial interests of its customers and shareholders.

The Bank's liquidity risk management is under strict monitoring by NLB d.d. as a parent bank. Reporting to NLB d.d. is done on a daily basis. The Bank is responsible for ensuring adequate liquidity via the necessary sources of funding and their appropriate diversification and maturity, and by managing liquidity reserves and fulfilling the requirements of regulations governing liquidity. The exposure towards liquidity risk is regularly monitored and reported to ALCO.

Managing liquidity reserves

The Bank has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves comprise cash, the settlement account at the NBRNM, sight deposits and term deposits at banks and securities issued by the government and the NBRNM. Available liquidity reserves are liquidity reserves decreased by the obligatory reserve requirements and encumbered assets.

The counterbalancing capacity (CBC) is determined on the basis of the revised methodology for liquidity risk stress - tests. The stress test result identifies a liquidity surplus/deficit in the survival period of 3 months, using the combined adverse stress scenario.

Assets available to meet all of the liabilities include cash, central bank balances, investment securities, loans and advances to banks and loans and advances to customers. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

When determining the gap between the financial liabilities and financial assets in the maturity bucket of up to one month, it is necessary to be aware of the fact that financial liabilities include total demand deposits, and that the Bank additionally calculated stability of demand deposits when ensuring compliance with the central bank's regulations. To ensure Bank's liquidity, and based on its approach to risk, in previous years the Bank compiled a substantial amount of high-quality liquid investments, mostly government securities.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a department in Risk management division, includes:
- determination of internal liquidity ratios and their regular calculation and monitoring;
- definition of the limits and warning levels of individual selected internal liquidity ratios;
- monitoring trends in the selected internal liquidity ratios;
- calculating liquidity score;
- preparation of cash flow plan by remaining maturity;
- monitoring daily data;
- daily monitoring of the LCR;
- monitoring early withdrawals of deposits;
- monthly calculation of LCR and quarterly NSFR liquidity ratios;
- monitoring asset encumbrance;
- performing scenarios to see how would a sudden and unexpected realisation of outflows influence liquidity ratios: LCR, NSFR, LtD, AUAR;
- preparation of intraday liquidity stress tests;
- monitoring counterbalancing capacity from different risk perspectives;

3 Risk management (continued)
3.3 Liquidity risk (continued)

- monitoring the stability of sight deposits;
- performing a benchmark analysis;
- preparation of liquidity risk stress tests and liquidity projections of future cash flows according to the budget and under stressed circumstances.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (note 3.3.3).
Risk management division also monitors unmatched medium-term assets, the level type and the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by a department in Risk management division to maintain a wide diversification by currency, geography, provider, product and term.

3.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows. In determining the cash flow for variable rate instruments the Bank has used spot rate. In liquidity risk table are included also all other liabilities as per IAS 19.

31.12.2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at amoritsed cost						
- deposits from banks	392,740	-	-	-	-	**392,740**
- borrowings from banks	42,779	28,695	203,770	887,805	349,001	**1,512,050**
- deposits from customers	67,181,993	2,357,991	9,242,574	7,527,462	-	**86,310,020**
- borrowings from other customers	2,448	4,928	8,052	8,890	84	**24,402**
- subordinated liabilities	-	-	141,206	1,171,162	2,424,441	**3,736,809**
- other financial liabilities	2,077,682	4	80,473	2,857	13,332	**2,174,348**
- lease liabilities	5,042	11,447	48,665	109,422	5,773	**180,349**
Credit risk related commitments	857,183	533,107	1,931,438	2,557,186	18,394	**5,897,308**
Non-financial guarantees	130,399	352,200	695,530	637,159	675,476	**2,490,764**
Total	**70,690,266**	**3,288,372**	**12,351,708**	**12,901,943**	**3,486,501**	**102,718,790**
Total financial assets	**22,249,776**	**4,147,162**	**17,597,029**	**38,959,202**	**23,207,180**	**106,160,349**

3 Risk management (continued)
3.3 Liquidity risk (continued)

31.12.2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities and credit-related commitments						
Financial liabilities measured at amoritsed cost						
- deposits from banks	358,822	12,500	-	-	-	**371,322**
- borrowings from banks	28,626	316	100,313	237,895	12,527	**379,677**
- deposits from customers	57,739,559	3,138,799	10,010,298	8,721,127	-	**79,609,783**
- borrowings from other customers	2,725	10,159	20,542	18,755	388	**52,569**
- subordinated liabilities	-	-	99,461	1,049,061	1,346,400	**2,494,922**
- other financial liabilities	603,045	31,585	166,381	154	4,927	**806,092**
- lease liabilities	27,930	9,390	37,751	111,692	19,713	**206,476**
Credit risk related commitments	92,982	747,018	1,636,893	2,777,364	21,279	**5,275,536**
Non-financial guarantees	21,740	122,369	565,447	652,007	573,537	**1,935,100**
Total	**58,875,429**	**4,072,136**	**12,637,086**	**13,568,055**	**1,978,771**	**91,131,477**
Total financial assets	**20,274,363**	**4,944,056**	**16,935,508**	**33,111,543**	**19,506,347**	**94,771,817**

3 Risk management (continued)
3.3 Liquidity risk (continued)

3.3.4 An analysis of the statement of financial position by residual maturity

31.12.2021	**Within 12 months**	**After 12 months**	**Total**
Assets			
Cash, cash balances at central bank and demand deposits at banks	15,118,573	-	**15,118,573**
Financial assets measured at fair value through other comprehensive income	3,018,908	4,155,043	**7,173,951**
Financial assets measured at amortised cost			
- debt securities	2,190,704	10,637,260	**12,827,964**
- loans and advances to banks	2,783,451	28,708	**2,812,159**
- loans and advances to customers	19,364,305	47,343,776	**66,708,081**
- other financial assets	1,518,026	1,595	**1,519,621**
Foreclosed collateral	246,951		**246,951**
Investment property	-	95,975	**95,975**
Property, equipment and right-of-use assets	-	2,082,140	**2,082,140**
Intangible assets	-	312,448	**312,448**
Other assets	54,512	-	**54,512**
Total assets	**44,295,430**	**64,656,945**	**108,952,375**
Liabilities			
Financial liabilities measured at amortised cost			
- deposits from banks	392,740	-	**392,740**
- deposits from customers	78,706,874	7,410,849	**86,117,723**
- other borrowed funds	284,441	1,234,494	**1,518,935**
- subordinated liabilities	1,025	2,767,317	**2,768,342**
- other financial liabilities	2,223,293	131,385	**2,354,678**
Provisions	256,515	160,194	**416,709**
Current income tax liabilities	78,730	-	**78,730**
Deferred income tax liabilities	-	102,924	**102,924**
Other liabilities	232,326	-	**232,326**
Total liabilities	**82,175,944**	**11,807,163**	**93,983,107**
NET	**(37,880,514)**	**52,849,782**	**14,969,268**

3 Risk management (continued)
3.3 Liquidity risk (continued)
3.3.4 An analysis of the statement of financial position by residual maturity (continued)

31.12.2020	Within 12 months	After 12 months	Total
Assets			
Cash, cash balances at central bank and demand deposits at banks	13,320,855	-	**13,320,855**
Financial assets measured at fair value through other comprehensive income	1,957,872	3,407,491	**5,365,363**
Financial assets measured at amortised cost			**-**
- debt securities	3,849,910	8,735,793	**12,585,703**
- loans and advances to banks	3,025,927	40,734	**3,066,661**
- loans and advances to customers	18,472,964	40,433,187	**58,906,151**
- other financial assets	1,526,399	685	**1,527,084**
Foreclosed collateral	265,477	-	**265,477**
Investment properties	-	103,011	**103,011**
Property, equipment and right-of-use assets	-	2,111,115	**2,111,115**
Intangible assets	-	278,154	**278,154**
Current income tax assets	30,924	-	**30,924**
Other assets	48,136	-	**48,136**
Total assets	**42,498,464**	**55,110,170**	**97,608,634**
Liabilities			
Financial liabilities measured at amortised cost			
- deposits from banks	371,319	-	**371,319**
- deposits from customers	70,774,607	8,562,118	**79,336,725**
- other borrowed funds	158,207	264,169	**422,376**
- subordinated liabilities	1,374	1,846,644	**1,848,018**
- other financial liabilities	747,979	136,487	**884,466**
Provisions	194,295	150,844	**345,139**
Deferred income tax liabilities	-	79,221	**79,221**
Other liabilities	176,870	-	**176,870**
Total liabilities	**72,424,651**	**11,039,483**	**83,464,134**
NET	**(29,926,187)**	**44,070,687**	**14,144,500**

3 Risk management (continued)

3.4 Management of non-financial risks

3.4.1 Operational risk

When assuming operational risks, the Bank follows the guidelines that such risks may not materially impact its operations and, therefore, the risk appetite for operational risks is low to moderate. The Bank has set up a system of collecting loss events, identification, assessment, and management of operational risks, all with the aim of ensuring quality management of operational risks.

The Bank monitors the operational limit of net loss expressed as a value, arising from loss events which the Bank tolerates in its operations. The limit is set at the level of the Bank and at the business line level. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, takes additional measures for the prevention or mitigation of the same or similar loss events. The critical limit of loss events is also defined, which in case of exceeding requires an assessment of the possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. In addition, the Bank does not allow certain risks in its business – for them a so-called zero tolerance was defined. For monitoring some specific more important key risk indicators, that could show a possible increase of an operational risk, the Bank developed an early warning system. In order to monitor certain important risks that could indicate an increased operational risk as an early warning indicator, the Bank developed a specific methodology. Such risks are periodically monitored in different business areas, and the results are discussed at the Operational Risk Committee. The latter was named as the highest authority in the area of operational risk management. The main task of the aforementioned body is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks including their mitigation within an individual entity. The Bank has adopted relevant documents that are in line with NLB standards and with the development of operational risk management and regularly updated. The Bank uses uniform software support, which is also regularly upgraded.

In the Bank, the reported incurred net loss arising from loss events in 2021 was lower than last year, and represents small part of the capital requirement for operational risk. Taking into account the pandemic that has occurred globally, net losses are within prescribed limits. In general, considerable attention is paid to reporting loss events, their mitigation measures and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank introduced an escalation scale for reporting loss events to the top levels of decision-making at the Bank and the Supervisory Board of the Bank. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events. Furthermore, the methodology to monitor, analyse and report key risk indicators is established, servicing as an early warning system. The aim is to improve business and supporting processes, as well enabling prompt response.

Through comprehensive identification of operational risks, possible future losses are identified, estimated, and appropriately managed. The major operational risks are actively managed with the measures taken to reduce them. An operational risk profile is prepared once a year on the basis of the operational risk identification. Special emphasis is put on the most topical risks, among which in particular are those with a low probability of occurrence and very high potential financial influence. For this purpose the Bank has developed the methodology of stress testing for operational risk. The methodology is a combination of modelling loss event data and scenario analysis for exceptional, but plausible events. Scenario analysis are made based on experience and knowledge of experts from various critical areas.
The capital requirement for operational risk in the Bank is calculated using the standardized approach, meaning that achieved financial results are divided into eight business lines.

3 Risk management (continued)
3.4 Management of non-financial risks (continued)

3.4.2 Business Continuity Management (BCM)

In the Bank continuity plans are prepared to be used in the event of natural disasters, IT disasters and undesired effects of the environment to mitigate their consequences.

The concept of the Plan that is prepared each year is such that the activities contribute to the upgrading or improvement of the BCM System. The basis for modernising the business continuity plans (BCP) arises from the regular annual Business Impact Analysis (BIA). On its basis, the adequacy of the plans for office buildings and IT plans is checked. The best indicator of the adequacy of the BCP is testing. In 2021, a test of the BCP was carried out at the Bank. No major deviations were discovered.

Know-how and methodologies are transferred from NLB d.d. to the Bank for which the Bank adopted appropriate documents which are in line with the standards of NLB d.d. and revised in accordance with the development of BCM.
For more efficient functioning of the BCM system, trainings and visits are also provided by the NLB d.d each year. In 2021, NLB d.d. carried out a workshop for the Main BCP Coordinators.
Upon IT disasters/failures, cyber scenarios and “not IT” disasters the Bank successfully used the IT plans, instructions for manual procedures, and Office Building Plans, and thus also ensured business operations in emergency situations.

3.4.3 Management of other types of non- financial risks – capital risk, strategic risks, reputation risk and profitability risk

Risks that are not included in the calculation of capital requirements by the regulatory approach but have or might have an important influence on the Bank’s risk profile, are regularly assessed, monitored and managed. In addition, they are integrated into ICAAP.
The Bank established internal methodologies for identifying and assessing specific types of risk, referring to the Bank’s business model or arising from other external circumstances. If a certain risk is assessed as a materially important risk, relevant disposable preventive and mitigation measures are applied, including regular monitoring of their effectiveness. On this basis internal capital requirements, as a part of ICAAP process, are also considered.

3 Risk management (continued)
3.4 Management of non-financial risks (continued)

3.4.4 Off-balance sheet items

a) Guarantees, letters of credit and limits

The Bank issues bank guarantees and letters of credit on behalf of its customers to third parties. Expirations are not concentrated in any period.

The following table indicates the contractual amounts of the Bank contingencies by category:

	2021	2020
Guarantees		
- in MKD currency	6,510,700	5,451,301
- in foreign currency	1,713,297	1,837,137
Letters of credit		
- in foreign currency	1,606,862	905,371
Limits on cheques and cards	4,292,763	4,388,256
Total	**14,123,622**	**12,582,065**
Less: Provisions	(307,714)	(241,424)
Total	**13,815,908**	**12,340,641**

These contingent liabilities have off balance-sheet credit risk because only origination fees and accruals for probable losses are recognised in the balance sheet until the contingencies are fulfilled or expire. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

b) Capital commitments

	2021	2020
Capital commitments for purchase of:		
- property and equipment	4,518	257
- intangible assets	2,370	2,326
Total	**6,888**	**2,583**

c) Funds managed on behalf of third parties

Funds managed on behalf of third parties are accounted separately from Bank's funds. Income and expenses arising with respect to these funds are charged to the respective fund, and no liability falls on the Bank in connection with these transactions. The Bank charges fees for its services.

	2021	2020
Gross amount of managed liabilities on behalf third parties	48,231,258	43,872,819
Commission from activities	33,977	34,178

3 Risk management (continued)

3.5 Fair value hierarchy of financial and non-financial assets and liabilities

IFRS 13 specifies a hierarchy of valuation techniques on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs have created the followings fair value hierarchy:

- Level 1 – the fair value is determined by quoted prices (unadjusted) in active markets for identical assets and liabilities. In level 1 are included government bonds, treasury bills that are traded on the interbank market and equity securities traded on the Macedonian Stock Exchange which has data on quoted bid prices, government bonds issued by Kingdom of Spain and government bills issued by Republic of Ireland. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.

- Level 2 – the fair value is determined by using valuation techniques that include inputs from active markets (inputs can directly or indirectly be confirmed and accessible on active market, for example: quoted prices in active markets for similar financial instruments, or any significant input into the model to determine the fair value can be confirmed and accessible on active market). Level 2 comprises derivative assets and liabilities for risk management (FX forward and FX swap) and equity instruments issued by VISA Inc USA.

- Level 3 – the fair value is determined by using valuation techniques that include inputs that cannot be directly or indirectly confirmed and accessible on active market or based on valuation techniques in which the highest share have the information about the risks of financial instruments. Level 3 comprises equity instruments issued by SWIFT SCRL Belgium.

The quantitative information for classification of financial assets and liabilities according to the levels of their fair value are shown in the following tables.

a) Financial and non-financial assets and liabilities measured at fair value in the financial statements

31.12.2021	Level 1	Level 2	Level 3	Total
Investment securities measured at fair value through other comprehensive income				
- investment securities - debt	7,048,916	-	-	**7,048,916**
- investment securities - equity	47,796	75,052	2,187	**125,035**
Derivatives - assets	-	804	-	**804**
Derivatives - liabilities	-	-	-	**-**
Total financial assets measured at fair value	**7,096,712**	**75,856**	**2,187**	**7,174,755**
Non-financial assets				
Investment property	-	95,975	-	**95,975**
Total non-financial assets	**-**	**95,975**	**-**	**95,975**

3 Risk management (continued)
3.5 Fair value hierarchy of financial and non-financial assets and liabilities (continued)

31.12.2020	Level 1	Level 2	Level 3	Total
Investment securities measured at fair value through other comprehensive income				
- investment securities - debt	5,332,440	-	-	**5,332,440**
- investment securities - equity	9,978	-	22,945	**32,923**
Derivatives - assets	-	461	-	**461**
Derivatives - liabilities	-	-	-	**-**
Total financial assets measured at fair value	**5,342,418**	**461**	**22,945**	**5,365,824**
Non-financial assets				
Investment property	-	103,011	-	**103,011**
Total non-financial assets	**-**	**103,011**	**-**	**103,011**

b) Financial and non-financial assets and liabilities at Level 2 regarding the fair value hierarchy

Financial instruments on Level 2 of the fair value hierarchy at the Bank includes investment property and derivatives (FX Forward) and equity instruments issued by VISA Inc USA.

Fair values for derivatives are determined using a discounted cash flow model based on the risk-free yield curve.

Investment property is valued using the income approach where the present value of future expected returns is assessed. When valuing an investment property, average rents at similar locations and capitalisation ratios such as: the risk-free yield, risk premium, liquidity premium, risk premium to account for the management of the investment, and the risk premium to account for capital preservation are used. Rents at similar locations are generated from various sources, like data from lessors and lessees, web databases, and own databases. The Bank has observable data for the investment property at its disposal.

c) Financial and non-financial assets and liabilities at Level 3 of the fair value hierarchy

Financial instruments on Level 3 of the fair value hierarchy in the Bank includes equity instruments issued by SWIFT SCRL Belgium. In 2021 equity instruments issued by KIBS AD Skopje are transferred to Level 1 due to trading occurred on Macedonian Stock Exchange.

3 Risk management (continued)
3.5 Fair value hierarchy of financial and non-financial assets and liabilities (continued)

Reconciliation of movements during the year in the fair values measured in Level 3

	Financial assets measured at fair value through other comprehensive income	Total Assets
Balance at 1 January 2020	**22,943**	**22,943**
Other gains / (losses) for the period not recognized in the Income statement	2	**2**
As at 31 December 2020	**22,945**	**22,945**
Balance at 1 January 2021	**22,945**	**22,945**
Other gains / (losses) for the period not recognized in the Income statement	1,585	**1,585**
Transfer out of level 3	(22,343)	**(22,343)**
As at 31 December 2021	**2,187**	**2,187**

d) Fair value of financial instruments not measured at fair value in financial statements

Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value.

	31.12.2021		31.12.2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost				
- debt securities	12,827,964	12,956,645	12,585,703	12,733,671
- loans and advances to banks	2,812,159	2,813,590	3,066,661	3,068,645
- loans and advances to customers	66,708,081	65,599,169	58,906,151	59,300,782
- other financial assets	1,519,621	1,519,618	1,527,084	1,527,084
Financial liabilities measured at amortised cost				
- deposits from banks	392,740	392,740	371,319	371,322
- borrowings from banks	1,494,708	1,512,238	370,431	383,524
- deposits from customers	86,117,723	86,021,903	79,336,725	79,276,619
- borrowings from other customers	24,227	24,440	51,945	52,658
- subordinated liabilities	2,768,342	2,632,021	1,848,018	1,882,311
- other financial liabilities	2,354,678	2,354,697	884,466	884,466

3 Risk management (continued)
3.5 Fair value hierarchy of financial and non-financial assets and liabilities (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the active market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The following methods and assumptions were used to estimate the fair values:

Loans and advances to banks

Due to other banks includes inter-bank placements.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Due from other banks and customers, other deposits, other borrowed funds and subordinated liabilities

The fair value of interest bearing financial liabilities is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.
The fair value of the term deposits at variable interest rates is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.
Subordinated liabilities carry variable interest rates and the fair value is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.

3 Risk management (continued)
3.5 Fair value hierarchy of financial and non-financial assets and liabilities (continued)

Fair value hierarchy of financial instruments not measured at fair value in financial statements

31.12.2021	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost				
- debt securities	-	12,956,645	-	**12,956,645**
- loans and advances to banks	-	2,813,590	-	**2,813,590**
- loans and advances to customers	-	65,599,169	-	**65,599,169**
- other financial assets	-	1,519,618	-	**1,519,618**
Financial liabilities measured at amortised cost				
- deposits from banks	-	392,740	-	**392,740**
- deposits from customers	-	86,021,903	-	**86,021,903**
- other borrowed funds	-	1,536,678	-	**1,536,678**
- subordinated liabilities	-	2,632,021	-	**2,632,021**
- other financial liabilities	-	2,354,697	-	**2,354,697**

31.12.2020	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost				
- debt securities	-	12,733,671	-	**12,733,671**
- loans and advances to banks	-	3,068,645	-	**3,068,645**
- loans and advances to customers	-	59,300,782	-	**59,300,782**
- other financial assets	-	1,527,084	-	**1,527,084**
Financial liabilities measured at amortised cost				**-**
- deposits from banks	-	371,322	-	**371,322**
- deposits from customers	-	79,276,619	-	**79,276,619**
- other borrowed funds	-	436,182	-	**436,182**
- subordinated liabilities	-	1,882,311	-	**1,882,311**
- other financial liabilities	-	884,466	-	**884,466**

In 2021 and 2020 there are no transfers between the levels.

3 Risk management (continued)

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- to comply with the capital requirements set by the regulator;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Bank's management, employing techniques based on the guidelines by the NBRNM, for supervisory purposes. The required information is reported to the NBRNM on a quarterly basis or more often on a request from NBRNM.

According to the Banking law, the banks are obliged to maintain:

- CET 1 ratio = CET 1 capital/RWA = min. 4.5%;
- T1 ratio = T1 Capital/RWA= min. 6% and
- Total capital ratio = Total capital/RWA = min. 8%.

CET – Common Equity Tier
RWA – Risk weighted assets
T1 – Tier 1

The Bank is obliged to maintain capital buffers which as a sum shall be fulfilled only with positions that are part of the CET 1 capital:

- capital conservation buffer defined as 2.5% of the RWA;
- countercyclical capital buffer defined as % of the RWA. Countercyclical buffer rates are set for different geographical exposures, according to macro-economic situation in relevant state, in the spread from 0% to 2.5% of total risk exposure amount. The countercyclical capital buffer is not currently applicable for the Bank (0%);
- systemically important banks buffer defined as % of the RWA set annually by NBRNM for each systemically important bank, which may range from 1% to 3.5% of RWA. NLB Banka is identified as systemically important bank and shall maintain systemically important banks buffer of 2.0% (previously 1.5%) of the RWA. The amount of such buffer is set annually by NBRNM for each systemically important bank must be fulfilled till 31 March of the following year;
- systemic risk buffer defined as % of the RWA set individually by NBRNM for all or several banks in North Macedonia. Systemic risk buffer may range from 1% to 3% of RWA and may be different for various banks or groups of banks. The systemic risk buffer is not currently applicable for the Bank (0%).

The NBRNM requires each bank or banking Group to: (a) hold the minimum level of the regulatory capital of MKD 310,000 thousands, (b) to comply with the prescribed capital buffers and (c) maintain a ratio of total regulatory capital to the risk-weighted assets (the "Basel ratio") at or above the internationally agreed minimum of 8%. In accordance with legal changes and applicable regulatory prescribed capital buffers the Bank is obligated to achieve Capital adequacy ratio (CAR) 15.75% no later than 31 March 2022.

The Bank's regulatory capital is divided into two tiers:

- Tier I capital: CET I capital (capital instruments, premium on capital instruments, mandatory general reserve, retained undistributed profit unencumbered by any future obligations, current profit, or year-end profit and accumulated other comprehensive income according to the Central Bank requirements) and Additional Tier I capital (capital instruments, premium on sale of capital instruments, less the deduction/corrections according to the Central Bank requirements). CET I capital must not be lower than 4.5% of the risk-weighted assets; Tier I capital must not be lower than 6% of the risk-weighted assets;

3 Risk management (continued)
3.6 Capital management (continued)

- Tier II capital: capital instruments and subordinated loans and premium on sale of capital instruments less the deduction/corrections according to the NBRNM requirements.

Overall capital requirement (OCR)
The Bank intends to exceed the applicable overall capital requirement (OCR) on ongoing basis in the expected circumstances. The Bank must meet the minimum Supervisory Review and Evaluation Process (SREP) capital requirement and all relevant consolidated buffer requirements. OCR is determined on forward looking perspective, including an additional management buffer for potential unexpected changes.

Total SREP capital requirement (TSCR)
The Bank intends to exceed the applicable total SREP capital requirement (TSCR) at all times in case of severe stressed conditions (ICAAP normative perspective). By considering it, ICAAP normative stress perspective is integrated into Risk appetite. In addition, on top of TSCR the management buffer is set.

Internal capital adequacy ratio
Internal capital adequacy ratio, defined in the ICAAP process, ensures that all risks are adequately covered by internal capital in economic perspective. Internal capital adequacy ratio shows surplus of internal capital above capital requirements for relevant risks in the economic perspective.

The Bank follow own local regulation requirements regarding ICAAP process.
ICAAP of the Bank, aligned with NLB Group principles, meets the requirements of the Capital Requirements Regulation (CRR) the guidelines of the ECB and European Banking association (EBA) and follows good banking practice. ICAAP is integrated into overall risk management system in order to assure adequate capital and sustainability at all times, including proactive support for informed decision making.

SREP Requirement		**2021**	**2020**
Pillar 1 (P1)	CET 1	4.50%	4.50%
	Tier 1	6.00%	6.00%
	Total capital	8.00%	8.00%
Pilar 2 (P2R)	Total capital	3.25%	3.00%
Total SREP Capital Requirement (TSCR)	CET 1	7.75%	7.50%
	Tier 1	9.25%	9.00%
	Total capital	11.25%	11.00%
Combined Buffer requirement (CBR)			
Conservation buffer	CET 1	2.50%	2.50%
SII buffer*	CET 1	2.00%	1.50%
Countercyclical buffer	CET 1	0.00%	0.00%
Systemic risk buffer	CET 1	0.00%	0.00%
Overall capital requirement (OCR)=MDA threshold	CET 1	12.25%	11.50%
	Tier 1	13.75%	13.00%
	Total capital	15.75%	15.00%

*The Bank is obligated to achieve CET 1 ratio 12.25%, Tier 1 ratio 13.75% and CAR 15.75% no later than 31st March 2022.

3 Risk management (continued)
3.6 Capital management (continued)

Credit RWA represents sum of weighted amount of all on and off-balance sheet exposure. All assets are classified into several categories of exposure and are given risk weights according to the level of credit quality of the debtor or exposure, taking into account effects of the adequate collateral.

Currency RWA are sum of the absolute amount of the Bank's net position in gold and its aggregate foreign currency position.

The Bank's aggregate foreign currency position includes foreign currency asset and liability items. Net spot position and net forward position classified as C, D and E risk categories are reported on net basis, i.e. less of any impairment losses/provision.
The Bank uses the standardised approach for determining required capital for operational risk meaning dividing achieved financial results into eight business lines.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. Regulatory capital adequacy is calculated based on statutory financial statement in accordance with regulation of NBRNM. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	31.12.2021	**31.12.2020**
Capital instruments of CET1	854,136	854,136
Premium on the capital instruments of CET1	2,274,484	2,274,484
Mandatory general reserve	7,119,458	5,449,124
Retained undistributed profit	1,991,178	1,144,753
Accumulated other comprehensive income	259,828	295,966
(-) Intangible assets	(79,770)	(66,481)
COMMON EQUITY TIER 1 CAPITAL (CET1)	**12,419,314**	**9,951,982**
Additional Tier 1 capital (AT1)		-
TIER 1 CAPITAL	**12,419,314**	**9,951,982**
Tier 2 capital	2,567,915	1,780,950
Total CAPITAL (OWN FUNDS)	**14,987,229**	**11,732,932**
RWA for credit risk	75,008,222	65,797,037
RWA for market risks	927,833	1,658,751
RWA for operational risk	7,397,231	7,179,745
RWA for counterparty risk*	8,811	7,583
Total RISK EXPOSURE AMOUNT (RWA)	**83,342,097**	**74,643,116**
Common Equity Tier 1 Ratio	14.90%	13.33%
Tier 1 Ratio	14.90%	13.33%
Total Capital Ratio	17.98%	15.72%

In order to fulfil the required capital adequacy ratio at local level (15.75%) and at NLB Group level (16.25% with the included addition of 50 basic points as an internal management addition), the Supervisory Board of the Bank decided, and based on prior consent obtained by NBRNM, part of the profit after tax realized in the period from 1 January to 31 December 2021 in accordance with the regulation of NBRNM, in the amount of MKD 666,424 thousands, to be included in the calculation of regular basic capital on 31 December 2021. The amount included in the calculation of the regular basic capital is limited for distribution (payment) to the shareholders in the future and it should be further confirmed at the Annual Shareholders' Assembly of the Bank.

3 Risk management (continued)

3.7 Reporting by segments

Segment reporting is presented in accordance with the strategy on the basis of a new model for profitability measurement implemented in all NLB subsidaries. The Bank's segments are business units that focus on different customers and markets. They are managed separately because each business unit requires different strategies and service levels.

The business activities of the Bank are divided into several segments. Interest income is reallocated between segments on the basis of fund transfer rates (FTP).

The segments of the Bank are divided into three segments.

The segments are the following:
- Retail segment includes operations with Individuals and Micro and Small companies under Internal Methodology (total credit exposure up to MKD 12,300 thousands and MKD 120,000 thousands revenue);
- Corporate segment includes operations with Large companies, SME with total credit exposure above MKD 12,300 thousands and MKD 120,000 thousands revenue, and Workout clients. It also includes operations with Banks, Saving houses, IFIs, Insurance companies, Pension funds, Investment funds, and other operation (bank`s own operations);
- Financial institutions segment covers the transactions with following products: custodian and custody services, securities, borrowings, subordinated debt, debt securities, foreign exchange/currency risk management, interest rate risk management, money market risk management, primary market.

The Bank is primarily a financial institution, and net interest income represents the majority of its net revenues.

There was no income from transactions with a single external customer that amounted to 10% or more of the Bank's income.

For a better and clearer presentation the Bank has changed the reporting by segments compared to 2020. Data for 2020 are adjusted to changed schemes in order to maintain consistency with the current year presentation.

31.12.2021	**Retail**	**Corporate**	**Financial Markets**	**Other**	**Total**
Net interest income	2,055,206	753,671	212,307	83,653	**3,104,837**
Interest Income	2,217,698	768,922	343,514	87,485	**3,417,619**
Interest Expense	(162,492)	(15,252)	(131,207)	(3,831)	**(312,782)**
Fee Other Income	692,257	300,947	73,158	(91,369)	**974,993**
Loan loss provision (PL Amount)	170,071	(16,402)	63,305	51,676	**268,650**
Loan loss provision (PL Off Amount)	14,510	(47,819)	-	(35,413)	**(68,722)**
Exposure Gross Assets	45,723,791	24,730,652	36,524,982	5,442,545	**112,421,970**
Exposure Gross Liabilities	71,025,418	15,198,631	7,377,894	(209,801)	**93,392,142**
Exposure Net Assets	44,499,850	22,216,937	36,424,296	5,811,292	**108,952,375**

3 Risk management (continued)
3.7 Reporting by segments (continued)

31.12.2020	**Retail**	**Corporate**	**Financial Markets**	**Other**	**Total**
Net interest income	1,934,646	757,577	143,658	133,181	**2,969,062**
Interest Income	2,190,003	783,520	270,487	137,421	**3,381,431**
Interest Expense	(255,357)	(25,944)	(126,829)	(4,239)	**(412,369)**
Fee Other Income	569,037	281,636	219,212	(143,828)	**926,057**
Loan loss provision (PL Amount)	(485,062)	(435,942)	(43,305)	(10,344)	**(974,653)**
Loan loss provision (PL Off Amount)	15,561	10,951	-	16	**26,528**
Exposure Gross Assets	41,039,466	21,826,656	33,249,751	5,302,675	**101,418,548**
Exposure Gross Liabilities	64,810,268	14,597,986	3,709,381	(164,100)	**82,953,535**
Exposure Net Assets	39,488,349	19,396,898	33,077,946	5,645,441	**97,608,634**

4. Net interest income

	2021	2020
Interest income calculated using the effective interest method		
Loans and advances at amortised cost:		
- to banks	5,223	17,696
- to customers	3,111,907	3,110,937
Cash and balances with central banks	3,310	931
Financial assets measured at fair value through other comprehensive income	113,575	94,918
Debt securities measured at amortised cost	183,604	156,949
Total	**3,417,619**	**3,381,431**
Interest and similar expenses		
Interest expense calculated using the effective interest method		
Deposits from banks	-	72
Deposits due to customers	179,913	283,242
Other borrowed funds	8,711	8,147
Subordinated liabilities	98,944	99,076
Lease liabilities	2,736	2,786
Other interest and similar expense		
Negative interest	21,414	17,984
Interest expense on defined employee benefits (note 39)	1,064	1,062
Total	**312,782**	**412,369**

The item “Negative interest” includes interest from deposits with banks MKD 5,105 thousand (2020: MKD 2,950 thousand) and interest from obligatory reserve in Central bank in amount of MKD 16,309 thousand (2020: 15,034 thousands).

5. Dividend income

	2021	2020
Financial assets measured at fair value through other comprehensive income	1,057	4,264
Total	**1,057**	**4,264**

6. Net fee and commission income

	2021	2020
Fee and commission income		
Letters of credit and guarantees	86,534	83,571
Payment transaction	886,364	755,769
Trust and other fiduciary fees	26,094	22,579
Received commission for credit cards	325,638	249,116
Investment banking	10,920	14,264
Transactions with traders	353,010	293,189
Card settlement	241,153	182,786
Received commission from banking insurance	35,908	32,955
Other fees	29,852	17,333
Total	**1,995,473**	**1,651,562**
Fee and commission expense		
Payment transaction	225,976	150,887
Card settlement and commission for credit cards	784,040	565,232
Investment banking	1,038	1,132
Other fees paid	9,426	8,254
Total	**1,020,480**	**725,505**

The Bank provides custody, trustee, corporate administration, lending, payment transactions in the country and abroad, investment management and advisory services to third parties, which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not reported in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.

7. Net gains/(losses) on financial instruments held for trading

	2021	2020
Net gains/losses foreign exchange trading income		
- gains	419,842	385,113
- losses	(142,692)	(233,860)
Net gains/losses from derivatives		
- gains	804	460
- losses	-	-
Total	**277,954**	**151,713**

8. Net foreign exchange gain/(loss)

	2021	2020
Foreign exchange gains	339,094,836	391,890,475
Foreign exchange losses	(339,102,424)	(391,847,045)
Total	**(7,588)**	**43,430**

9. Net gains/(losses) on derecognition of assets

	2021	2020
Net gains/(losses) at derecognition-property&equipment	3,096	1,125
Net gains/(losses) at derecognition-other (without HFS)	(379)	4,955
Total	**2,717**	**6,080**

10. Other operating income

	2021	2020
Rental income	13,222	12,912
Income from non-banking services - cash transportation	41,987	42,106
Other	14,078	19,911
Total	**69,287**	**74,929**

11. Other operating expenses

	2021	2020
Insurance premiums for deposits	149,118	136,619
Charges under court decision	1,821	678
Revaluation of investment property to fair value (note 28)	11,479	-
Other	33,352	41,360
Total	**195,770**	**178,657**

Insurance premium for deposits is calculated as percent of 0.25% of retail deposits and interests and liabilities for unallocated inflows from abroad for retail customers.

The item “Other” mainly includes expenses associated with donations.

12. Personnel expenses

	2021	2020
Wages and salaries	613,124	561,278
Social security costs	194,570	196,513
Pension costs:		
- defined contribution plans	24,658	21,474
Holiday allowances	21,800	22,025
Compensation benefits to the members of the Management Board and managers	15,777	7,101
Unused annual leaves	(7,150)	6,341
Other employee costs	29,331	25,962
Net Expense/(income) provisions for pensions&similar liab. (note 39)	809	599
Net Expense/(income) provisions for other long term employee benefits (note 39)	1,989	2,575
Other	706	53
Total	**895,614**	**843,921**
Number of employees	877	877

13. General and administrative expenses

	2021	2020
Technology		
- maintainance of software and hardware	50,371	50,293
- data access and subscription costs	14,402	13,054
- licences	27,489	24,060
Buildings and equipment		
- electricity	28,593	25,162
- other costs related to buildings and equipment	22,036	26,671
- maintainace cost	48,771	44,559
- cost of insurance for tangible assets	3,581	4,444
- cost of security - buldings	30,610	33,055
- rents and leases	17,277	13,901
Cost of materials	25,505	31,065
Marketing and public relations	28,570	28,926
Travel and entertainment	10,342	10,280
Telecommunication and postage		
- postal services	10,329	7,235
- telecommunication and internet	38,694	28,446
Rental stuff costs	41,073	35,272
Services for collection of claims	15,592	11,553
Cost of audited services	2,912	3,780
Cost of scholarship, education	4,457	2,769
Cost of other communation services	17,703	15,906
Taxes and other public revenues	2,121	13,903
Memership fees and similar	2,510	2,555
Other insurance	18,790	13,949
Other administrative expenses	107,199	90,269
Total	**568,927**	**531,107**

The item “Other administrative expenses” include costs for cash transport, archiving services, intellectual services and other services.

14. Depreciation and amortisation expenses

	2021	2020
Depreciation of property and equipment:		
- own property and equipment (note 29)	140,044	124,367
- right-of-use assets (note 29)	75,031	68,039
Amortisation of software and other intangible assets (note 30)	83,814	67,132
Total	**298,889**	**259,538**

15. Gains less losses from modification

	2021	2020
Losses from modification of financial assets at amortised cost	(10,819)	(132,400)
Total	**(10,819)**	**(132,400)**

16. Provisions

	2021	2020
Provision for off balance - Guarantiees and commitments (note 39)		
Increase of provisions	(412,680)	(357,130)
Reversal of provisions	346,348	383,658
Provisions for lawsuits (note 39)		
Increase of provisions	(2,390)	-
Reversal of provisions	-	-
Total	**(68,722)**	**26,528**

17. Impairment charges

	2021	2020
Impairment of financial assets		
Cash, cash balances at central bank and demand deposits at banks		
Increase in impairment	(11,202)	(13,387)
Reversal of impairment	14,524	12,778
Financial assets at fair value through OCI (note 26. c)		
Increase in impairment	(26,142)	(44,474)
Reversal of impairment	42,332	30,959
Debt securities measured at amortised cost (note 26. c)		
Increase in impairment	(38,773)	(75,717)
Reversal of impairment	82,742	47,637
Loans and advances to individuals measured at amortised costs (note 26. a)		
Increase in impairment	(1,368,088)	(1,298,967)
Reversal of impairment	1,460,712	880,519
Loand and advances to legal enteties measured at amortised costs (note 26. a)		
Increase in impairment	(2,171,799)	(1,796,597)
Reversal of impairment	1,675,670	1,095,328
Other financial assets measured at amortised costs (note 26. a)		
Increase in impairment	(43,174)	(39,878)
Reversal of impairment	28,030	20,160
Collected written-off receivables (note 26. a)	649,687	220,087
Total impairment of financial assets	**294,519**	**(961,552)**
Impairment of non-inancial assets		
Impairment other assets	(18,094)	(13,101)
Impairment - property&equipment (note 30)	(7,775)	-
Total impairment of non-financial assets	**(25,869)**	**(13,101)**

The item “Collected written-off claims” with the amount of MKD 649,687 thousands (2020: MKD 220,087 thousands) include amounts of collected written-off claims with repayment (the largest amount arises from one off event, a client repaid its written-off obligations towards the Bank) and collected written off claims with foreclosed collateral. In 2021 the amount of collected written-off claims with foreclosed collateral is MKD 229 thousands (2020: nil).

18. Income tax expense

	2021	2020
Current taxes on income for the reporting period	226,071	153,063
Deferred tax	23,703	(56,492)
Total	**249,774**	**96,571**

	2021	2020
Profit before tax	2,653,166	1,281,787
Tax calculated at a tax rate of 10%	265,317	128,179
Effect off:		
Income not assessable for tax purposes	(510)	(414)
Reinvested income not subject to tax	(12,407)	(16,912)
Expenses not deductible for tax purposes	12,211	10,652
Tax deduction for donation in sport	(18,199)	(25,997)
Temporary difference from legal tax regime	(20,341)	57,555
Income tax expense (effective tax rate 8.52% and 11.94% respectively)	**226,071**	**153,063**
Deferred tax:		
Relating to origination and reversal of temporary differences	23,703	(56,492)
Income tax expense reported in the Income statement	**249,774**	**96,571**

	Statement of finacial position		**Income statement**	
Deferred tax	**2021**	**2020**	**2021**	**2020**
Revaluation of foreclose collateral	(13,686)	(12,628)	1,058	3,584
Revaluation of investment propery to fair value	-	279	279	450
Impairment provision	(98,014)	(79,305)	18,709	(48,093)
Modification	8,776	12,433	3,657	(12,433)
Deferred tax assets/(liabilities), net	**(102,924)**	**(79,221)**	**23,703**	**(56,492)**

19. Cash, cash balances at Central bank and demand deposits at banks

	2021	2020
Cash in hand	3,205,387	3,050,597
Balances with central bank other than mandatory reserve deposits	5,262,907	4,468,122
Demand deposits at banks	3,033,591	2,607,339
Less: allowance for impairment	(4,833)	(8,154)
Mandatory reserve deposits with central bank	3,378,366	2,877,874
Restricted deposits	243,155	325,077
Total	**15,118,573**	**13,320,855**

The item "Cash, cash balances at Central bank and demand deposits at banks" is included in Cash and cash equivalents.

The Bank has to fulfil reserve requirement in MKD and in foreign currencies with the NBRNM.

The obligatory reserve in denars as of 31 December 2021 is in amount of MKD 4,978,297 thousands (2020: MKD 4,389,972 thousands). The effective interest rate on the obligatory reserve in MKD is 0% (2020: 0%). Obligatory reserve funds in denars are maintained on the current account opened with NBRNM.

The obligatory reserve in foreign currency as of 31 December 2021 is in amount MKD 3,556,186 thousands or EUR 57,705 thousands (2020: MKD 3,029,360 thousands or EUR 49,103 thousands). In accordance with the Decision on reserve requirement, during 2021 the Bank has maintained 95% of the reserve requirement amount in euro allocated to the foreign exchange account of the Central Bank abroad and 5% of the reserve requirement amount in euro allocated on its account in euro in MIPS.

The Central Bank does not calculate reserve requirement remuneration in denars. Remuneration is charged on reserve requirement in euro at a rate equal to the interest rate on the ECB's overnight deposit facility applicable as of the last day of the reserve maintenance period. If the average daily outstanding amount of the Bank's funds allocated to the foreign exchange account in euro in MIPS exceeds 5% of the calculated reserve requirement in euro for the entire reserve maintenance period, remuneration is charged on the excess allocated funds at a rate equal to the interest rate on the ECB's overnight deposit facility applicable as of the last day of the reserve maintenance period, less 0.15 percentage points.

20. Financial assets measured at fair value through other comprehensive income

a) Analysis by type of financial assets measured at fair value through other comprehensive income

	2021	2020
Financial assets measured at fair value through other comprehensive income included in cash equivalents		
Treasury bills:		
- National Bank of Republic of North Macedonia	1,725,827	1,692,984
Total financial assets measured at fair value through other comprehensive income included in cash equivalents	**1,725,827**	**1,692,984**
Financial assets measured at fair value through other comprehensive income		
Government bonds:		
- Republic of North Macedonia	4,121,154	3,639,456
- EU members	615,952	-
Government bills:		
- EU members	585,983	-
Shares:		
- other financial institution	125,035	32,923
Total	**7,173,951**	**5,365,363**
of these equity securities	125,035	32,923
of these debt securities	7,048,916	5,332,440
Allowance for impairment	(23,320)	(39,602)
Listed securities		
of these equity instruments	-	-
of these debt instruments	5,323,089	3,639,456
Unlisted securities		
of these equity instruments	125,035	32,923
of these debt instruments	1,725,827	1,692,984

20 Financial assets measured at fair value through other comprehensive income (continued)

b) Movement of financial assets measured at fair value through other comprehensive income

	2021		2020	
	Equity securities	Debt securities	Equity securities	Debt securities
At 1 January	**32,923**	**5,332,440**	**32,921**	**6,136,472**
Exchange difference	-	(5,244)	-	6,937
Interest added to principal	-	113,575	-	94,918
Additions	-	23,103,967	-	30,519,038
Disposals and maturity	-	(21,369,919)	-	(31,493,927)
Net gains/losses from changes in fair value	92,112	(125,903)	2	69,002
At 31 December	**125,035**	**7,048,916**	**32,923**	**5,332,440**

The treasury bills owned by the Bank on 31 December 2021 are debt securities issued by NBRNM with a maturity of 36 days and fixed interest rate. They are nominated in denars. The primary market is the auctions of the treasury bills organized by NBRNM. On the secondary market, they can be traded at the over-the-counter market. Only banks can trade with treasury bills.
The effective interest rate of these securities moves from 1.25% to 1.50% (2020: 1.50% to 2.00%) on annual basis.

Eurobonds are classified as debt securities measured at fair value through other comprehensive income in the amount of MKD 4,121,154 thousand (2020: MKD 3,639,456 thousands). The Eurobonds owned by the Bank as at 31 December 2021 have a maturity of 6 and 7 years and are denominated in euro. The total amount of the Eurobonds includes interest of MKD 91,147 thousand (2020: MKD 76,308 thousands). The effective interest rate is from 1.18% to 3.13% annually.

Government bonds issued by Kingdom of Spain are classified as debt securities measured at fair value through other comprehensive income in the amount of MKD 615,952 thousand (2020: nil). The full amount matures on 31 January 2022. The total amount includes interest of MKD 16,544 thousand (2020: nil). The effective interest rate is from -0.66% to -0.68% annually.

Government bills issued by Republic of Ireland are classified as debt securities measured at fair value through other comprehensive income in amount of MKD 585,983 thousand (2020: nil). The full amount matures on 21 February 2022. The effective interest rate is -0.73% on annual basis.

Equity instruments are from financial companies in the amount of MKD 125,035 thousands (2020: MKD 32,923 thousands). The increase in 2021 is from fair value of VISA Inc USA and SWIFT SCRL Belgium.
In 2021, the Bank has a transfer of equity instruments from Level 3 to Level 1 (equity securities from KIBS AD Skopje) for which fair value valuation was made based on the purchase price on the Macedonian Stock Exchange.
Listed securities are valued at the last purchase price on each trading day on the Macedonian Stock Exchange and for foreign securities prices are obtained from Bloomberg.

21. Financial assets measured at amortised cost

	2021	2020
Debt securities	12,827,964	12,585,703
Loans and advances to banks	2,812,159	3,066,661
Loans and advances to customers	66,708,081	58,906,151
Other financial assets	1,519,621	1,527,084
Total	**83,867,825**	**76,085,599**

22. Debt securities

	2021	2020
Debt securities measured at amortised cost		
Government bills	597,247	1,397,415
Government bonds	12,296,133	11,297,679
Less:allowance for impairment - stage 1 (note 26. c)	(65,416)	(109,391)
Total	**12,827,964**	**12,585,703**

Government bills

Government bills classified as financial assets at amortised cost are MKD 597,247 thousands (2020: MKD 1,397,415 thousands).
The government bills are with maturity of more than 90 days and the entire amount will due in 2022. The government bills are nominated in denars. The effective interest rate is from 0.50% to 0.70% annually.

Government bonds

Continuous government bonds are classified as debt securities at amortised cost in the amount of MKD 11,612,238 thousands (2020: MKD 11,297,679 thousands).
Continuous government bonds are with maturity of 2, 3, 5, 10 and 15 years and are nominated in denars and denars with currency clause in euros. The total amount of continuous government bonds includes interest in the amount of MKD 96,695 thousands (2020: MKD 106,955 thousands). The effective interest rate is from 0.80% to 3.50% annually. During 2022, continuous government bonds will due in the nominal amount of MKD 1,492,050 thousands.

Eurobonds classified as debt securities at amortised cost are in the amount of MKD 683,895 thousand (2020: nil). The Eurobonds owned by the Bank on 31 December 2021, are with maturity of 6 years and are denominated in euro. The total amount of Eurobonds includes interest of MKD 13,154 thousand (2020: nil). The effective interest rate is from 2.03% to 2.05% on annual basis.

23. Loans and advances to banks

	2021	2020
Placements with other banks	2,741,683	2,468,576
Included in cash and cash equivalents	2,741,683	2,468,576
Placements with other banks with maturity over 3 months	-	502,558
Loans and advances to other banks	72,553	100,241
Less: allowance for impairment - stage 1	(2,077)	(4,714)
Total	**2,812,159**	**3,066,661**

The item “Placements with other banks” includes interest liabilities for deposits of the Bank up to 3 months in foreign banks, due to negative interest rate in the amount of MKD 289 thousands (2020: MKD 253 thousands).

24. Loans and advances to customers

	2021	2020
Individual (retail customers)		
- overdrafts	1,157,162	1,126,505
- credit cards	2,327,591	2,476,472
- term loans	23,528,082	21,176,536
- mortgages	16,188,561	13,785,244
Total	**43,201,396**	**38,564,757**
Corporate entities		
- companies	27,045,664	24,091,528
- other financial organization	161,989	130,450
- governement	268	61,183
- non-profit organization	12,279	19,129
Total	**27,220,200**	**24,302,290**
Gross loans and advances	**70,421,596**	**62,867,047**
Less: allowance for impairment (note 26. a)	(3,713,515)	(3,960,896)
Total	**66,708,081**	**58,906,151**

Short-term deposits at financial companies with original maturity up to 3 months are included in Cash and cash equivalents in amount of MKD 128,983 thousands (2020: MKD 119,139 thousands).

The item “Loans and advances to customers” includes advance payments for not matured loans and interest in amount of MKD 235,595 thousands (2020: MKD 275,020 thousands).

25. Other financial assets

	2021	2020
Credit cards receivables	188,698	226,243
Debtors	25,852	17,028
Commission claims	86,599	89,898
Pensions paid in advance	1,200,195	1,149,618
Other	47,482	78,444
Less: allowance for impairment (note 26. a)	(29,205)	(34,147)
Total	**1,519,621**	**1,527,084**

On 27 December 2021, the Bank paid the pensions for the clients of the Bank in the amount of MKD 1,200,191 thousands, which on 5 January 2022 were refunded by the Pension and Disability Insurance Fund of North Macedonia.

26. Movements in allowance for financial assets

a) Movements in allowance for the impairment of loans and advances measured at amortised cost

	Balance as at 1 Jan 2021	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Transfer	Increases/ decreases	Write-offs	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2021	Repayments of written-off receivables
12-month expected credit losses											
Loans and advances to banks	4,259	-	-	-	-	(511)	-	(1,724)	53	2,077	-
Loans and advances to individuals	418,147	(51,544)	101,650	295,956	346,062	(253,511)	(493)	(173,553)	2	336,654	-
Loans and advances to legal entities	361,894	(39,763)	74,947	3,425	38,609	159,755	(15)	88,617	223	649,083	-
Other financial assets	3,876	(405)	495	1,121	1,211	162	(481)	350	-	5,118	-
Life time ECL not credit impaired											
Loans and advances to banks	-				-					-	-
Loans and advances to individuals	109,768	39,389	(175,577)	40,213	(95,975)	33,784	(228)	3,600	(116)	50,833	-
Loans and advances to legal entities	387,946	38,558	(174,718)	12,693	(123,467)	1,207	(89)	31,436	58	297,091	-
Other financial assets	646	367	(842)	278	(197)	561	(686)	671	-	995	-
Life time ECL credit impaired											
Loans and advances to banks	-				-					-	
Loans and advances to individuals	820,808	12,157	73,926	(336,169)	(250,086)	337,722	(148,784)	(41,710)	(25,479)	692,471	(83,691)
Loans and advances to legal entities	1,862,788	1,205	99,771	(16,119)	84,857	227,572	(70,444)	(11,424)	(405,966)	1,687,383	(548,950)
Other financial assets	29,625	38	347	(1,399)	(1,014)	13,653	(18,927)	(253)	8	23,092	(17,046)
Of which: Purchased credit-impaired financial assets	-	-	-	-	-	-	-	-	-	-	

	Balance as at 1 Jan 2020	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Transfer	Increases/ decreases	Write-offs	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020	Repayments of written-off receivables
12-month expected credit losses											
Loans and advances to individuals	500,460	(48,666)	56,810	123,137	131,281	(89,833)	(10)	(124,774)	1,023	418,147	-
Loans and advances to legal entities	400,860	(60,490)	29,937	885	(29,668)	17,773	-	(23,213)	401	366,153	-
Other financial assets	3,249	(327)	316	470	459	(431)	(137)	736	-	3,876	-
Life time ECL not credit impaired											
Loans and advances to individuals	61,246	39,437	(107,613)	27,581	(40,595)	12,547	(167)	74,876	1,861	109,768	-
Loans and advances to legal entities	295,691	59,706	(141,811)	4,472	(77,633)	91,863	-	77,719	306	387,946	-
Other financial assets	495	268	(505)	320	83	(284)	(470)	822	-	646	-
Life time ECL credit impaired											
Loans and advances to individuals	485,136	9,230	50,803	(150,718)	(90,685)	490,915	(146,240)	54,717	26,965	820,808	(159,023)
Loans and advances to legal entities	1,582,251	784	111,873	(5,357)	107,300	523,501	(457,214)	13,626	93,324	1,862,788	(54,834)
Other financial assets	40,377	58	190	(790)	(542)	18,091	(29,077)	784	(8)	29,625	(6,230)
Of which: Purchased credit-impaired financial assets	-	-	-	-	-	-	-	-	-	-	

b) Movements in provisions for guarantees and commitments

	Balance as at 1 Jan 2021	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Transfer	Increases/ decreases	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2021
12-month expected credit losses									
Guarantees and commitments	140,850	(5,206)	19,871	21,046	35,711	(388)	28,158	-	204,331
Life time ECL not credit impaired									
Guarantees and commitments	39,926	4,971	(27,329)	608	(21,750)	1,352	7,817	(10)	27,335
Life time ECL credit impaired									
Guarantees and commitments	60,648	235	7,458	(21,654)	(13,961)	30,212	(819)	(32)	76,048
Of which: Purchased credit-impaired financial assets	-	-	-	-	-	-	-	-	-

26 Movements in allowance for financial assets (continued)

	Balance as at 1 Jan 2020	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Transfer	Increases/decreases	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020
12-month expected credit losses									
Guarantees and commitments	168,359	(9,308)	23,688	5,187	19,567	(7,746)	(39,359)	29	140,850
Life time ECL not credit impaired									
Guarantees and commitments	66,395	9,048	(31,719)	2,238	(20,433)	(8,656)	2,579	41	39,926
Life time ECL credit impaired									
Guarantees and commitments	33,110	260	8,031	(7,425)	866	24,688	1,966	18	60,648
Of which: Purchased credit-impaired financial assets	-	-	-	-	-	-	-	-	-

c) Movements in allowance for impairment of debt securities

	Balance as at 1 Jan 2021	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Transfer	Increases/ decreases	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2021
12-month expected credit losses									
Debt securities mesured at amortised cost	109,391	-	-	-	-	15,547	(59,516)	(6)	65,416
Debt securities mesured at fair value through other comprehensive income	39,602	-	-	-	-	7,138	(23,328)	(92)	23,320
Life timeECL not credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Life time ECL credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-

	Balance as at 1 Jan 2020	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Transfer	Increases/ decreases	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2020
12-month expected credit losses									
Debt securities mesured at amortised cost	81,299	-	-	-	-	28,080	-	12	109,391
Debt securities mesured at fair value through other comprehensive income	26,012	-	-	-	-	13,515	-	75	39,602
Life timeECL not credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Life time ECL credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-

26 Movements in allowance for financial assets (continued)

d) Explanation of how significant changes in the gross carrying amount of financial instruments contributed to changes in the loss allowance

In year 2021, the increase in gross carrying amount did not cause significant changes in the loss allowance level.

The gross carrying amount of debt securities at amortised cost increased by MKD 198,286 thousand, which cause decease of the balance of loss allowance by MKD 43,977 thousand. The gross carrying amount of debt securities measured at fair value through other comprehensive income increased by MKD 1,716,476 thousand and the loss allowance decreased by MKD 16,282 thousand.

Changes in gross carrying amount of loans to individuals were significant, i.e. increase by MKD 4,637,447 thousand, and is mainly driven by increased exposure in stage 1 by MKD 5,910,024 thousand, together with the decrease of loss allowance by MKD 267,169 thousand, as a result of new risk parameters.

Decreasing of loans and advances to banks by MKD 257,138 thousand, cause decrease of loss allowance by MKD 2,637 thousand.

The tables below illustrate how changes in the gross carrying amount of financial instruments contributed to changes in the loss allowance.

Movement of gross carrying amount of loans to banks

12-month expected credit losses	2021	2020
Balance as at 1 January	3,071,973	2,858,537
Decreases/Increases	(257,138)	213,436
Balance as at 31 December	**2,814,835**	**3,071,973**

Movement of gross carrying amount of loans and advances to customer

Individuals	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2021	35,233,120	1,965,690	1,262,928	**38,461,738**
Transfers	478,515	(842,273)	363,758	**-**
Increases/(Decreases)	5,404,976	(395,988)	(246,297)	**4,762,691**
Write-offs	(3,440)	(75)	(158,295)	**(161,810)**
Modification losses	29,973	7,878	(1,285)	**36,566**
Balance as at 31 December 2021	**41,143,144**	**735,232**	**1,220,809**	**43,099,185**

Individuals	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2020	33,052,751	1,409,414	780,382	**35,242,547**
Transfers	(1,547,307)	877,307	670,000	**-**
Increases/(Decreases)	3,840,004	(310,149)	(43,830)	**3,486,025**
Write-offs	(3,343)	(225)	(138,939)	**(142,507)**
Modification losses	(108,985)	(10,657)	(4,685)	**(124,327)**
Balance as at 31 December 2020	**35,233,120**	**1,965,690**	**1,262,928**	**38,461,738**

26 Movements in allowance for financial assets (continued)

Other customers	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**
Balance as at 1 January 2021	17,974,355	3,764,369	2,665,985	**24,404,709**
Transfers	(185,111)	(603,497)	788,608	**-**
Increases/(Decreases)	4,573,092	(827,053)	(749,855)	**2,996,184**
Write-offs	(3)	(8)	(79,089)	**(79,100)**
Balance as at 31 December 2021	**22,362,333**	**2,333,811**	**2,625,649**	**27,321,793**

Other customers	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**
Balance as at 1 January 2020	18,665,114	3,427,330	2,191,040	**24,283,484**
Transfers	(2,356,860)	1,255,525	1,101,335	**-**
Increases/(Decreases)	1,667,016	(918,486)	(166,785)	**581,745**
Write-offs	(915)	-	(459,605)	**(460,520)**
Balance as at 31 December 2020	**17,974,355**	**3,764,369**	**2,665,985**	**24,404,709**

Movement of gross carrying amount of debt securities measured at amortised cost

12-month expected credit losses	**2021**	**2020**
Balance as at 1 January	12,695,094	8,797,026
Additions	3,994,607	6,367,092
Derecognition	(3,796,321)	(2,469,024)
Balance as at 31 December	**12,893,380**	**12,695,094**

Movement of gross carrying amount of debt securities measured at fair value through other comprehensive income

	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**
Balance as at 1 January 2021	5,332,440	-	-	**5,332,440**
Additions	3,797,462	-	-	**3,797,462**
Derecognition	(1,953,948)	-	-	**(1,953,948)**
Changes in fair values	(127,038)	-	-	**(127,038)**
Balance as at 31 December 2021	**7,048,916**	**-**	**-**	**7,048,916**

	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**
Balance as at 1 January 2020	6,136,473	-	-	**6,136,473**
Additions	3,228,480	-	-	**3,228,480**
Derecognition	(4,101,984)	-	-	**(4,101,984)**
Changes in fair values	69,471	-	-	**69,471**
Balance as at 31 December 2020	**5,332,440**	**-**	**-**	**5,332,440**

26 Movements in allowance for financial assets (continued)

Movement of contractual amounts of guarantees and commitments in off-balance sheet

	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**
Balance as at 1 January 2021	11,871,654	587,785	122,626	**12,582,065**
Increases/Decreases	1,630,388	(78,632)	(10,199)	**1,541,557**
Transfers	34,795	(68,850)	34,055	**-**
Balance as at 31 December 2021	**13,536,837**	**440,303**	**146,482**	**14,123,622**

	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**
Balance as at 1 January 2020	11,069,666	1,418,020	81,540	**12,569,226**
Increases/Decreases	303,649	(247,273)	(43,537)	**12,839**
Transfers	498,339	(582,962)	84,623	**-**
Balance as at 31 December 2020	**11,871,654**	**587,785**	**122,626**	**12,582,065**

27. Foreclosed collateral

	2021	**2020**
Land	93	-
Buildings	193,001	197,832
Residential buildings	29,626	40,218
Equipment	23,973	26,919
Other	258	508
Total	**246,951**	**265,477**

Assets acquired through foreclosure procedure include land, apartments, equipment, business premises and other items which are not used by the Bank for its core operations.

The market for certain types of collateral in Republic of North Macedonia is in an early stage of development. Management has made an estimate of the expected recoverable amount net of cost to realise the assets, based on a number of factors, including independent assessment. However, given the foregoing, actual amounts realised may differ from the estimates made.

	Carrying value		**Fair value less costs to sell**	
	2021	**2020**	**2021**	**2020**
Foreclosed collateral	246,951	265,477	253,329	268,088

27 Foreclosed collateral (continued)

Movement of foreclosed collateral

	Foreclosed collateral
At 1 January 2021	**265,477**
Additions	229
Disposals	(661)
Net gains/losses from assessment (note 17)	(18,094)
At 31 December 2021	**246,951**

At 1 January 2020	**283,599**
Additions	-
Disposals	(5,021)
Net gains/losses from assessment (note 17)	(13,101)
At 31 December 2020	**265,477**

28. Investment property

	2021	**2020**
Investment property at fair value as at 1 January	103,011	103,011
Revaluation of investment property to fair value (note 11)	(11,479)	-
Transfer from/(to) property and equipment	4,443	-
Investment property at fair value as at 31 December	**95,975**	**103,011**

The Bank classifies as investment property part of Property and equipment that is not used by the Bank for own use. Property (land and buildings) classified as investment property is not depreciated and is measured at fair value. The Bank revalue its investment property on the basis of a valuation performed by an internal valuer.

In the assessment is applied one of income methods - discounted cash flow method. The estimation of the market value of the property is directly depending on the expected annual net income from the assets or the income resulting from the issuance of the property leased.

In the assessment is used all documentation available for the property, websites for supply and demand of similar properties, statistical data, information of the sale and rental of suitable properties by investors, information about interest rate of treasury bills and bonds.
The fair value measurement was made using valuation techniques for which the lowest level input that is significant to the fair measurement is directly or indirectly observable (Level 2).

Description of methodology used and key inputs to valuation on investment property:

28 Investment property (continued)

Methodology	Inputs	Ranges
Discounted cash flow method	Net annual rent income	EUR 8.2 per sq.m.
	Capitalization rate	9.12%

Increases/(decreases) in the rent rate and capitalization rate would not result in a significant lower (higher) fair value of investment property.

The Rental income from investment property is MKD 6,944 thousands (2020: MKD 6,637 thousands), while the Bank has no additional expenses concerned with the investment property.

Future minimum rentals receivable under non-cancellable operating lease as at 31 December, are as follows:

	2021	2020
Within one year	6,944	5,532
After one year but not more than five years	5,999	-
More than five years	-	-
Total	**12,943**	**5,532**

During 2021, the Bank has no new acquired or sale of investment property. As at 31 December 2021 the Bank does not have any investment property pledged as collateral (2020: nil).

29. Property, equipment and right-of-use assets

Acquisition cost	Land and buildings at cost	Furniture & equipment	Other	Total property and equipment	Right-of-use assets - Land and buildings	Right-of-use assets - Furniture and equipment	Total Right-of-use assets	Total
Opening balance at 1 January 2020	2,095,919	1,335,563	75,615	**3,507,097**	183,056	42,771	**225,827**	**3,732,924**
Additions	2,061	138,533	16,503	**157,097**	-	-	**-**	**157,097**
Increases	-	-	-	**-**	75,261	19,810	**95,071**	**95,071**
Sales and settlements	-	(8,406)	-	**(8,406)**	(5,923)	-	**(5,923)**	**(14,329)**
Write-off	-	(5,645)	-	**(5,645)**	-	-	**-**	**(5,645)**
Closing balance at 31 December 2020	**2,097,980**	**1,460,045**	**92,118**	**3,650,143**	**252,394**	**62,581**	**314,975**	**3,965,118**
Opening balance at 1 January 2021	2,097,980	1,460,045	92,118	**3,650,143**	252,394	62,581	**314,975**	**3,965,118**
Additions	7,625	106,475	23,452	**137,552**	-	-	**-**	**137,552**
Increases	-	-	-	**-**	38,180	62,141	**100,321**	**100,321**
Sales and settlements	-	(64,469)	-	**(64,469)**	(59,570)	-	**(59,570)**	**(124,039)**
Impairment	(7,775)	-	-	**(7,775)**	-	-	**-**	**(7,775)**
Transfer to/from investment property	(7,762)	-	-	**(7,762)**	-	-	**-**	**(7,762)**
Write-off	-	(3,506)	-	**(3,506)**	-	-	**-**	**(3,506)**
Closing balance at 31 December 2021	**2,090,068**	**1,498,545**	**115,570**	**3,704,183**	**231,004**	**124,722**	**355,726**	**4,059,909**
Accumulated depreciation								
Opening balance at 1 January 2020	(427,688)	(1,119,664)	(65,993)	**(1,613,345)**	(45,484)	(19,755)	**(65,239)**	**(1,678,584)**
Charge for the year (note 14)	(48,742)	(70,608)	(5,017)	**(124,367)**	(48,286)	(19,753)	**(68,039)**	**(192,406)**
Sales and settlements	-	8,223	-	**8,223**	3,119	-	**3,119**	**11,342**
Write-off	-	5,645	-	**5,645**	-	-	**-**	**5,645**
Closing balance at 31 December 2020	**(476,430)**	**(1,176,404)**	**(71,010)**	**(1,723,844)**	**(90,651)**	**(39,508)**	**(130,159)**	**(1,854,003)**
Opening balance at 1 January 2021	(476,430)	(1,176,404)	(71,010)	**(1,723,844)**	(90,651)	(39,508)	**(130,159)**	**(1,854,003)**
Charge for the year (note 14)	(48,595)	(84,270)	(7,179)	**(140,044)**	(49,550)	(25,481)	**(75,031)**	**(215,075)**
Sales and settlements	-	64,469	-	**64,469**	20,019	-	**20,019**	**84,488**
Impairment	-	-	-	**-**	-	-	**-**	**-**
Transfer to/from investment property	3,319	-	-	**3,319**	-	-	**-**	**3,319**
Write-off	-	3,502	-	**3,502**	-	-	**-**	**3,502**
Closing balance at 31 December 2021	**(521,706)**	**(1,192,703)**	**(78,189)**	**(1,792,598)**	**(120,182)**	**(64,989)**	**(185,171)**	**(1,977,769)**
Net book value								
at 1 January 2020	**1,668,231**	**215,899**	**9,622**	**1,893,752**	**137,572**	**23,016**	**160,588**	**2,054,340**
at 31 December 2020	**1,621,550**	**283,641**	**21,108**	**1,926,299**	**161,743**	**23,073**	**184,816**	**2,111,115**
at 31 December 2021	**1,568,362**	**305,842**	**37,381**	**1,911,585**	**110,822**	**59,733**	**170,555**	**2,082,140**

As at 31 December 2021 the Bank does not have any property pledged as collateral (2020: nil).

30. Intangible assets

Acquisition cost	Software	Other intangible assets	Total
Opening balance at 1 January 2020	389,439	300,049	689,488
Additions	14,376	124,289	138,665
Transfer	72,616	(72,616)	-
Closing balance at 31 December 2020	**476,431**	**351,722**	**828,153**
Opening balance at 1 January 2021	476,431	351,722	828,153
Additions	50,099	68,009	118,108
Transfer	79,644	(79,644)	-
Closing balance at 31 December 2021	**606,174**	**340,087**	**946,261**
Accumulated depreciation			
Opening balance at 1 January 2020	(300,713)	(182,154)	(482,867)
Charge for the year (note 14)	(38,735)	(28,397)	(67,132)
Closing balance at 31 December 2020	**(339,448)**	**(210,551)**	**(549,999)**
Opening balance at 1 January 2021	(339,448)	(210,551)	(549,999)
Charge for the year (note 14)	(53,719)	(30,095)	(83,814)
Closing balance at 31 December 2021	**(393,167)**	**(240,646)**	**(633,813)**
Net book value			
at 1 January 2020	**88,726**	**117,895**	**206,621**
at 31 December 2020	**136,983**	**141,171**	**278,154**
at 31 December 2021	**213,007**	**99,441**	**312,448**

31. Leases

a) Leases as lessee

	2021	2020
Right-of-use assets		
Land and buildings	110,822	161,743
Furniture and equipment	59,733	23,073
Total	**170,555**	**184,816**
Lease liabilities	**180,350**	**206,477**

In statement of financial position right-of-use assets are included in the item “Property, equipment and right-of-use assets” and lease liabilities are included in the item “Other financial liabilities”.

The income statement shows the following amounts relating to leases:

	2021	2020
Depreciation of right-of-use-assets		
Land and buildings (note 29)	49,550	48,286
Furniture and equipment (note 29)	25,481	19,753
Total	**75,031**	**68,039**

	2021	2020
Interest expense	2,736	2,786
Expenses relating to leases of low-value assets	7,770	6,746

The total cash flow for lease in 2021 was MKD 89,765 thousands (2020: MKD 76,966 thousands). From these amount, MKD 82,114 thousands (2020: MKD 70,405 thousands) is for capitalized leases and MKD 7,651 thousands (2020: MKD 6,561 thousands) is for other leases.
The Bank do not have expenses relating to variable lease payments and gains or losses arising from sale and leaseback transactions.
The Bank has no restrictions or covenants imposed by leases, no sale and leaseback transactions and no lease agreements to which is committed, but not yet commenced.

Maturity analysis of lease liabilities is disclosed in note 3.3.3.

32. Other assets

	2021	2020
Pre-payments	8,174	4,438
Claims for taxes	883	573
Deferred expense	23,428	17,083
Inventories	21,222	25,581
Other	805	461
Total	**54,512**	**48,136**

As of 31 December 2021, the Bank has foreign exchange forward and swap contracts as financial assets with positive fair value of MKD 805 thousands (2020: MKD 461 thousands) presented in the item “Other”.

33. Financial liabilities measured at amortised cost

Analysis by type

	2021	2020
Deposits from banks	392,740	371,319
Deposits from customers	86,117,723	79,336,725
Other borrowed funds	1,518,935	422,376
Subordinated liabilities	2,768,342	1,848,018
Other financial liabilities	2,354,678	884,466
Total	**93,152,418**	**82,862,904**

34. Deposits from banks

	2021	2020
Demand deposit	365,008	337,226
Term deposits	-	12,500
Restricted deposits	27,732	21,593
Total	**392,740**	**371,319**

The note Deposits from banks includes receivables based on negative interest on current accounts of banks, due to the negative interest rate on these accounts in the amount of MKD 1 thousand (2020: MKD 4 thousands).

35. Deposits from customers

	2021	2020
Companies		
- current/settlement accounts	20,925,248	19,382,368
- term deposits	907,420	1,112,046
- restricted deposits	604,586	513,927
Public institutions		
- current/settlement accounts	522,513	564,710
- term deposits	496	477
- restricted deposits	-	-
Retail customers		
- current/demand accounts	42,723,473	35,016,788
- term deposits	18,295,882	20,626,878
- restricted deposits	1,526,305	1,610,071
Financial institutions		
- current/settlement accounts	473,248	342,237
- term deposits	93,544	155,173
- restricted deposits	45,008	12,050
Total	**86,117,723**	**79,336,725**

36. Other borrowed funds

	Weighted Average Interest Rate (%)	2021	2020
Domestic borrowings:			
Development Bank of North Macedonia (DBNM)	3mEURIBOR+0.75% with zero floor clause; 0.75% - 1.00%	1,014,275	190,946
Macedonian Enterprise Development Foundation (MEDF)	2.27%	4,902	25,097
Ministry of Finance (MF)	0.50%	19,324	26,848
Foreign borrowings:			
European Bank for Reconstraction and Development (EBRD)	6mEURIBOR+1.50% with zero floor clause; 6mEURIBOR+1.70% with zero floor clause; 6mEURIBOR+2.40% with zero floor clause; 1.50% - 2.40%	480,434	179,485
Total		**1,518,935**	**422,376**

Loans from Development Bank of North Macedonia (DBNM)

During 2021, the Bank drew 6 tranches from the credit line of the Agricultural Credit Discount Fund authorized by the Ministry of Finance with a total amount of EUR 47 thousands (MKD 2,896 thousands) intended for further financing of projects from the area of agriculture.

In August 2021, the Bank concluded a Framework Agreement for participation in the lending program for small and medium enterprises and medium market capitalized enterprises from the EIB 6 credit line in the amount of EUR 100,000 thousands (MKD 6,162,700 thousands), with the Development Bank of North Macedonia (DBNM). In 2021, were withdrawn funds from DBNM - two tranches of the EIB 6 credit line in the total amount of EUR 14,400 thousands (MKD 887,429 thousands), intended for financing working capital and investment projects.

The credit line of EIB and the credit line MSP PIA TOS by DBNM are secured with bills of exchange in a form of notary act and with an obligation of establishing a pledge of receivables. The Bank has established a pledge in form of notary act in favor of DBNM of the claims by the agreements for sub-credit concluded by the end users approved by the credit lines of EIB administered by DBNM and the credit line MSP PIA TOS. On 31 December 2021, the amount of borrowings for which the Bank has established a pledge of receivables in favor of DBNM based on the credit lines amounts to EUR 16,455 thousands (MKD 1,014,072 thousands).

Loans from Macedonian Enterprise Development Foundation (MEDF)

The credits granted by Macedonian Enterprises Development Foundation (MEDF) are secured by bills of exchange with bank statements and a loan waiver agreement arising from sub-loan agreements with end users.

Loans from Ministry of finance (MF)

The loans granted by the Ministry of Finance are secured by bills of exchange from the Bank.

36 Other borrowed funds (continued)

Loans from European Bank for Reconstruction and Development (EBRD)

In December 2021, the Bank entered into Agreements with the EBRD for:

- Long-term loan in the amount of EUR 5,000 thousands (MKD 308,135 thousands), intended to support the competitiveness of small and medium enterprises (Regional Small & Medium-sized Enterprises Competitiveness Support Program).

During 2021, the Bank withdrew two tranches from the credit line of the EBRD Western Balkans Green Economy Financing Facility - WB GEFF - Residential from 16 September 2020 (tranche A and B) in the total amount of EUR 2,200 thousands (MKD 135,579 thousands) intended for further financing of energy efficient projects in the residential sector, i.e. for individuals or groups of individuals, housing associations and management companies (residential buildings), service providers (including ESCO), sellers and manufacturers. The Bank has not given a collateral for this credit line.

During 2021, the Bank withdrew tranches from the credit line of the EBRD Regional Small & Medium-sized Enterprises Competitiveness Support Program from 16 September 2020 (tranche A and B) in the total amount of about EUR 3,800 thousands (MKD 234,183 thousands), intended for further financing of investments of legal entities in industrial facilities, equipment, software, improvement of the management systems of the enterprise or general upgrade created for the promotion of one or more EU Directives in the field of environmental protection, safety of employees and product quality and safety, as well as investments in high-performance technologies. The Bank has not given a collateral for this credit line.

On 31 December 2021, the Bank complies with the covenants of the agreements.

37. Subordinated liabilities

	Interest Rate (%)	2021	2020
Nova Ljubljanska Banka d.d.	6mEURIBOR+4.10% with zero floor clause; 6mEURIBOR+4.49% with zero floor clause; 6mEURIBOR+5.25% with zero floor clause; 6mEURIBOR+6.25% with zero floor clause; 4.10% - 6.25%	2,768,342	1,848,018
Total		**2,768,342**	**1,848,018**

37 Subordinated liabilities (continued)

Movement of subordinated liabilities

	2021	2020
At 1 January	**1,848,018**	**1,840,991**
Cash flow items:		
- new issued subordinated liabilities	924,345	-
- repayments of subordinated liabilities		-
- repayments of interest	(91,266)	(88,462)
Non-cash flow items:		
- accrued interest	98,944	99,076
- exchange difference	(1,895)	6,242
- other	(9,804)	(9,829)
At 31 December	**2,768,342**	**1,848,018**

On 12 June 2015, the Bank concluded a Subordinated Loan Agreement with Nova Ljubljanska Banka d.d. Ljubljana in the amount of MKD 677,897 thousands or EUR 11,000 thousands. The subordinated loan was granted with an interest rate of 6mEURIBOR + 7.50% p.a. with maturity of 10 years (until 2025). With annex to Agreement from 26 December 2016 the interest rate was changed to 6mEURIBOR + 6.25% p.a. with Zero Floor clause.

On 20 December 2018, the Bank concluded a Subordinated Loan Agreement with Nova Ljubljanska Banka d.d. Ljubljana in the amount of MKD 554,643 thousands or EUR 9,000 thousands, with interest rate of 6 months EURIBOR + 5.25% p.a. with Zero Floor clause and repayment period of 10 years (until 2028).

On 13 June 2019, the Bank concluded a Subordinated Loan Agreement with Nova Ljubljanska Banka d.d. Ljubljana in the amount of MKD 616,270 thousands or EUR 10,000 thousands in order to replace the subordinated loan from International Finance Corporation with an interest rate of 6 months EURIBOR + 4.10% p.a with Zero Floor clause and repayment period of 10 years (until 2029).

On 22 December 2021 the Bank concluded a Subordinated Loan Agreement with NLB d.d. Ljubljana in the amount of MKD 924,405 thousands or EUR 15,000 thousands, with an interest rate of 6 months EURIBOR + 4.48% p.a with zero floor clause and maturity of 10 years (to 2031).

38. Other financial liabilities

	2021	2020
Dividends declared and payable	1,277,884	13,015
Accruals	109,173	106,672
Temporary retained payment	586,370	356,798
Suppliers payables	67,910	90,034
Accounts for short-term liabilities for credit cards	59,245	50,220
Lease liabilities	180,350	206,477
Other	73,746	61,250
Total	**2,354,678**	**884,466**

Dividends declared and payable as of 31 December 2021 are paid on the beginning of 2022.

The item “Temporary retained payment” consists mainly from obligations to customers for undistributed payments from abroad.

39. Provisions

Analysis and movement by type of provisions

	Provisions for off balance sheet items	Pending legal issues	Pensions and other post retirement benefit obligations	Provisions for other long term employee benefits	Total
At 1 January 2020	**267,864**	**61,698**	**7,876**	**31,848**	**369,286**
Provisions made	357,130	-	635	4,529	**362,294**
Costs incurred	-	-	(165)	(2,033)	**(2,198)**
Provisions released	(383,658)	-	(36)	(1,954)	**(385,648)**
Exchange differences	90	-	-		**90**
Increase in discounted amount		-	218	844	**1,062**
Transfer to OCI		-	253	-	**253**
At 31 December 2020	**241,426**	**61,698**	**8,781**	**33,234**	**345,139**

	Provisions for off balance sheet items	Pending legal issues	Pensions and other post retirement benefit obligations	Provisions for other long term employee benefits	Total
At 1 January 2021	**241,426**	**61,698**	**8,781**	**33,234**	**345,139**
Provisions made	412,680	2,390	809	3,043	**418,922**
Costs incurred	-	(54)	(282)	(2,978)	**(3,314)**
Provisions released	(346,348)	-	-	(1,054)	**(347,402)**
Exchange differences	(44)	-	-	-	**(44)**
Increase in discounted amount	-	-	241	823	**1,064**
Transfer to OCI	-	-	2,344	-	**2,344**
At 31 December 2021	**307,714**	**64,034**	**11,893**	**33,068**	**416,709**

39 Provisions (continued)

Litigation is common in the banking sector, due to the nature of the business. The Bank is involved in several lawsuits from its regular operations with the value of the proceedings in the amount of MKD 637,184 thousand (2020: MKD 666,361 thousand). The management, the legal department of the Bank and the external lawyer, expects positive outcome of these lawsuits and the final outcome of these lawsuits will not materially affect the results of the Bank.
In 2021, the amount of provisions for contingent liabilities based on litigation has increased compared to 2020, due to a court judgment that caused additional provisions for contingent liabilities for litigation in the amount of MKD 2,390 thousand (2020: nil). The amount of provisions is slightly reduced by the amount of MKD 54 thousand (2020: nil), which amount was paid for one court case that ended to the detriment of the Bank. As of 31 December 2021, the balance of provisions for litigation of the Bank, for a total of seven court cases is in the amount of MKD 64,034 thousand (2020: MKD 61,698 thousand).

40. Other liabilities

	2021	2020
Deffered income	36,144	41,179
Received advance payments	3,072	1,697
Taxes payable	76,557	5,919
Compensation benefits to the members of the Management Board and management	44,535	66,778
Liabilities for salaries	51,442	33,571
Liabilities for unused annual leaves	20,576	27,726
Total	**232,326**	**176,870**

41. Related party transactions

Related parties include Nova Ljubljanska banka d.d., Ljubljana as “parent bank”, Supervisory Board, person with special rights and responsibilities in the Bank, their related entities and family members as “management personnel and their related parties” and NLB Group members as “other related parties”. A number of banking transactions are entered into with related parties in the normal course of business and are based on contractual terms. These include loans, deposits, dividends and other transactions. Income and expenses for the parent bank mainly consist of interest expenses for subordinated debt, fee income and expenses for payment transactions, foreign exchange gains and losses and expenses for communication and consulting services. Income and expenses for management personnel and their related parties mainly consist of interest income from loans, interest expenses for deposits, fee income from payment transactions, foreign exchange gains and losses and expenses for business travel. Income and expenses for other related parties mainly consist of fee expenses for payment transactions, income from consulting services and expenses for consulting services. The volumes of related party transactions, and outstanding balances at the year-end, are as follows:

41 Related party transactions (continued)

For the year ended on 31 December 2021:

	Parent bank	Management personnel and their related parties	Other related parties
Profit or loss			
Interest income	10	2,623	2
Fee and commission income	12,475	770	501
Interest expense	(98,944)	(2,158)	-
Fee and commission expense	(35,793)	-	(5,276)
Net gains/(losses) on financial instruments classified as held for trading	(7,683)	48	-
Other operating income	15,086	(337)	8,965
Other operating expenses	(7,368)	(767)	(14,076)
Balance sheet			
Cash and cash equivalents			
Balance at 1 January	**249,272**	**-**	**209,867**
Loans issued during the year	117,149,259	-	6,084,799
Loan repayments during the year	(116,907,012)	-	(6,179,059)
Balance at 31 December	**491,519**	**-**	**115,607**
Loans			
Balance at 1 January	**-**	**93,275**	**-**
Loans issued during the year	-	116,855	-
Loan repayments during the year	-	(102,996)	-
Balance at 31 December	**-**	**107,134**	**-**
Other financial assets			
Balance at 1 January	**63**	**393**	**142**
Other assets issued during the year	182	1,692	10,941
Other assets repayments during the year	(173)	(1,453)	(8,279)
Balance at 31 December	**72**	**632**	**2,804**
Deposits			
Balance at 1 January	**25,138**	**265,315**	**151,513**
Deposits received during the year	3,163	799,192	7,554,719
Deposits repaid during the year	(5,486)	(773,126)	(7,636,387)
Balance at 31 December	**22,815**	**291,381**	**69,845**

41 Related party transactions (continued)

	Parent bank	Management personnel and their related parties	Other related parties
Subordinated liabilities			
Balance at 1 January	**1,848,018**	**-**	**-**
Loans issued during the year	925,361	-	-
Loans repayments during the year	(5,037)	-	-
Balance at 31 December	**2,768,342**	**-**	**-**
Other borrowed funds			
Balance at 1 January	**-**	**-**	**-**
Loans issued during the year	-	-	-
Loans repayments during the year	-	-	-
Balance at 31 December	**-**	**-**	**-**
Other financial liabilities			
Balance at 1 January	**99,614**	**48,098**	**(132,195)**
Other liabilities issued during the year	1,273,958	19,056	131,765
Other liabilities repayments during the year	(80,590)	(33,614)	(31,656)
Balance at 31 December	**1,292,982**	**33,540**	**(32,086)**

41 Related party transactions (continued)

For the year ended on 31 December 2020:

	Parent bank	Management personnel and their related parties	Other related parties
Profit or loss			
Interest income	28	3,561	2
Fee and commission income	9,654	763	490
Interest expense	(99,105)	(2,838)	-
Fee and commission expense	(28,659)	-	(4,515)
Net gains/(losses) on financial instruments classified as held for trading	(13,186)	18	-
Other operating income	(14,306)	434	2,213
Other operating expenses	(7,135)	(371)	(4,800)
Balance sheet			
Cash and cash equivalents			
Balance at 1 January	**181,714**	**-**	**384,518**
Loans issued during the year	105,011,883	-	5,374,006
Loan repayments during the year	(104,944,325)	-	(5,548,657)
Balance at 31 December	**249,272**	**-**	**209,867**
Loans			
Balance at 1 January	**169,101**	**81,299**	**-**
Loans issued during the year	-	118,498	-
Loan repayments during the year	(169,101)	(106,522)	-
Balance at 31 December	**-**	**93,275**	**-**
Other financial assets			
Balance at 1 January	**84**	**240**	**633**
Other assets issued during the year	179	795	5,294
Other assets repayments during the year	(200)	(642)	(5,785)
Balance at 31 December	**63**	**393**	**142**
Deposits			
Balance at 1 January	**28,047**	**241,493**	**65,874**
Deposits received during the year	-	654,573	4,679,476
Deposits repaid during the year	(2,909)	(630,751)	(4,593,837)
Balance at 31 December	**25,138**	**265,315**	**151,513**

41 Related party transactions (continued)

	Parent bank	Management personnel and their related parties	Other related parties
Subordinated liabilities			
Balance at 1 January	**1,840,991**	**-**	**-**
Loans issued during the year	7,027	-	-
Loans repayments during the year	-	-	-
Balance at 31 December	**1,848,018**	**-**	**-**
Other borrowed funds			
Balance at 1 January	**-**	**-**	**73**
Loans issued during the year	-	-	-
Loans repayments during the year	-	-	(73)
Balance at 31 December	**-**	**-**	**-**
Other financial liabilities			
Balance at 1 January	**79,609**	**55,470**	**(122,697)**
Other liabilities issued during the year	26,927	8,348	316,744
Other liabilities repayments during the year	(6,922)	(15,720)	(326,242)
Balance at 31 December	**99,614**	**48,098**	**(132,195)**

Transaction with key management personnel

The total compensation to the key management personnel are as follows:

	2021	2020
Management personnel	147,145	126,340
Non-executive directors	1,247	525
Total	**148,392**	**126,865**

All the compensation to the key management personnel is according to the contracts and decisions.

42. Share capital

	Number of shares	Ordinary shares	Share premium	Non-voting shares	Total
At 1 January 2020	854,061	854,061	2,274,484	-	3,128,545
At 31 December 2020	854,061	854,061	2,274,484	-	3,128,545
At 31 December 2021	854,061	854,061	2,274,484	-	3,128,545

42 Share capital (continued)

The authorized share capital of the Bank consists of 854,061 ordinary shares (2020: 854,061 ordinary shares). Ordinary shares have a par value of MKD 1 thousands (2020: MKD 1 thousands). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the Shareholders' Assembly of the Bank.

The below stated shareholders have more than 5% of the Bank's issued voting share capital:

	% of voting share capital	
Shareholders	**2021**	**2020**
Nova Ljubljanska banka d.d., Ljubljana	86.97%	86.97%

Nova Ljubljanska banka d.d., Ljubljana holds 86.97% of total share capital and voting rights in NLB Banka AD Skopje.

After the balance sheet date, no dividends were declared.

Revaluation Reserve

The revaluation reserve includes the cumulative net effect of the changes in the fair value of investments at fair value through other comprehensive income until the moment of their derecognition or impairment.
Gains and losses arising from changes in the fair value and the balance of the impairment accounts of debt securities measured at fair value through other comprehensive income are recognised directly in Revaluation reserves.

The Bank in accordance with IAS 19 recognises revaluation reserve for post-employment benefits for actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) and will not be recycled to the income statement.
Revaluation reserves reflect the changes in actuarial assumptions for the retirement bonuses as a difference from the previous actuarial calculation and the new actuarial calculation that includes the effect of the events that really happened in the period. Such experiential changes that are recorded in revaluation reserves are: changes in financial assumptions (discount rate, expected rate of return, levels of future wages and benefits), change in demographic indicators, change in experiential assumptions, etc.

	2021	**2020**
Revaluation reserve from long-term employee benefits	(4,819)	(2,475)
Revaluation reserve FA at FVOCI - equity instruments	90,284	(1,828)
Revaluation reserve FA at FVOCI - debt instriments	(49,187)	76,716
Impairment - FA at FVOCI - debt instruments	23,320	39,602
Total	**59,598**	**112,015**

42 Share capital (continued)

Movements in revaluation reserve were as follows:

	2021	2020
At 1 January	**112,015**	**29,673**
Transfer to reserves from long-term employee benefits	(2,344)	(253)
Net gains/(losses) from changes in fair value of FA FVOCI - equity instruments	92,112	2
Net gains/(losses) from changes in fair value of FA FVOCI - debt instriments	(125,903)	69,002
Net gains/(losses) from impairment of FA FVOCI - debt instriments	(16,282)	13,591
At 31 December	**59,598**	**112,015**

Retained earnings

One part of retained earnings is reinvested earning from previous year, which was separate with the distribution of profit and is for investments in the next year in tangible and intangible assets, in order to use the tax relief for the investments made. According to the decision, in 2021 the Bank separate the amount of MKD 180,000 thousands for investments (2020: MKD 177,648 thousands), and the used amount of investment MKD 124,078 thousands (2020: MKD 169,120 thousands) is used for tax relief.

Other reserves

The item “Other reserves” consists of distribution of earnings from previous years, that according to decision is retained like Bank’s reserves.

In Other reserves is included the statutory reserve. Under the local statutory legislation, the Bank is required to set aside 5% of its net profit for the year in the statutory reserve until the level of the reserve reaches an amount equal to 1/10 of the court registered capital. Until reaching the minimum required level statutory reserve could only be used for loss recovery.

43. Earnings per share

The calculation of earnings per share for the year ended 31 December 2021 was based on the net profit attributable to ordinary shareholders of MKD 2,403,392 thousands (2020: MKD 1,185,216 thousands) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2021 of 854,061 shares (2020: 854,061 shares). The calculation of the basic earnings per share is:

	2021	2020
Net profit attributable to shareholders for basic and diluted earnings per share	2,403,392	1,185,216
Weighted average number of shares for basic and diluted earnings per share:		
Basic earnings per share (in MKD)	2,814	1,388
Diluted earnings per share (in MKD)	2,814	1,388

43 Earnings per share (continued)

The calculation of the weighted average number of ordinary shares for the years ended 31 December 2021 and 2020 is as follows:

	2021	2020
Issued ordinary shares at 1 January	854,061	854,061
At 31 December	**854,061**	**854,061**

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these financial statements.

44. Changes in liabilities arising from financing activities

	01 January 2021	Cash inflows	Cash outflows	Foreign exchange movement	Effective interest rate accruals	Other	31 December 2021
Current interest-bearing subordinated loans	(2,802)	-	(91,266)	55	98,944	(9,804)	(4,873)
Non-current interest-bearing subordinated loan	1,850,820	924,345	-	(1,950)	-	-	2,773,215
Dividends payable	13,128	-	(193,739)	-	-	1,526,207	1,345,596
Total liabilities from financing activities	**1,861,146**	**924,345**	**(285,005)**	**(1,895)**	**98,944**	**1,516,403**	**4,113,938**

	01 January 2020	Cash inflows	Cash outflows	Foreign exchange movement	Effective interest rate accruals	Other	31 December 2020
Current interest-bearing subordinated loans	(3,577)	-	(88,462)	(10)	99,076	(9,829)	(2,802)
Non-current interest-bearing subordinated loan	1,844,568	-	-	6,252	-	-	1,850,820
Dividends payable	13,128	-	-	-	-	-	13,128
Total liabilities from financing activities	**1,854,119**	**-**	**(88,462)**	**6,242**	**99,076**	**(9,829)**	**1,861,146**

45. Subsequent events

Events after the date of the Balance sheet are change of the members of the Management Board of the Bank, as follows:

- from 1 January 2022, Mr. Branko Greganović is appointed as President of the Management Board;
- from 1 January 2022, Mr. Antonio Argir is not a President of the Management Board;
- from 2 January 2022, Mr. Igor Davchevski was re-appointed as a member of the Management Board in accordance with a decision for prior consent from the NBRNM issued on 5 November 2021;
- from 3 January 2022, Mr. Peter Zelen was re-appointed as a member of the Management Board in accordance with a decision for prior consent of the NBRNM issued on 23 November 2021.

45 Subsequent events (continued)

In February 2022, following the military conflict between Russia and Ukraine, certain countries announced new packages of sanctions against the public debt of the Russian Federation and a number of Russian banks, as well as personal sanctions against a number of individuals.

Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the ruble against the US dollar and the euro.

It is expected that these events may affect the activities of Russian and Ukrainian enterprises in various sectors of the economy. The Bank does not have direct exposures to related parties and/or key customers or suppliers from those countries.

The Bank regards these events as non-adjusting events after the reporting period, the quantitative effect of which cannot be estimated at the moment with a sufficient degree of confidence. Currently, the Bank's management is analysing the possible impact of changing micro and macroeconomic conditions on the Bank's financial position and results of operations.

After the reporting date, until the date of approval of these financial statements, no other material events subsequent to the reporting date have occurred which require changes and disclosure in the financial statements.