

**NLB Banka AD Skopje**  
**Independent Auditor's Report and**  
**Financial statements**  
**for the year ended 31 December 2021**

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## **INDEPENDENT AUDITOR'S REPORT**

**To shareholders of NLB Banka AD Skopje**

### **Report on the financial statements**

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 Income Statement, Statement of comprehensive income, Statement of the Changes in Equity and Statement of Cash Flow 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 regulation of National Bank of Republic of North Macedonia, 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 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 auditor's 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 auditor considers 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 audit opinion.

## **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 regulation of the National Bank of Republic of North Macedonia.

## **Report on Other Legal and Regulatory Matters**

Management is also responsible for preparation of the annual report in accordance with article 384 of the Macedonian Company Law. Our responsibility in accordance with the Audit Law is to report whether the annual report is consistent with the annual account and audited financial statements of the Bank for the year ended 31 December 2021. Our work regarding the annual report is performed in accordance with ISA 720 accepted in the Republic of North Macedonia and published in the Official Gazette no. 79 dated 11 June 2010 and limited to assessing whether the historical financial information of the annual report is consistent with the annual account and the audited financial statements of the Bank.

The annual report is consistent, in all material respects, with the annual account and the audited financial statements of the Bank for the year ended 31 December 2021.

Vladimir Sokolovski  
General Manager

Vladimir Sokolovski  
Certified Auditor

Ernst & Young Certified Auditors DOO, Skopje  
Skopje, 05 April 2022

**Income statement  
for the period 01.01.2021 to 31.12.2021**

	Note	<i>in MKD thousands</i>	
		current year 2021	previous year 2020
Interest income		3,322,539	3,329,534
Interest expenses		(316,355)	(416,348)
Net interest income/(expenses)	6	<b>3,006,184</b>	<b>2,913,186</b>
Fee and commission income		2,073,549	1,737,147
Fee and commission expenses		(871,159)	(614,255)
Net fee and commission income/(expenses)	7	<b>1,202,390</b>	<b>1,122,892</b>
Net trading income	8	5,546	(45,819)
Net income from other financial instruments at fair value	9	804	460
Net income/(expenses) from exchange differences	10	263,652	239,538
Other operating income	11	688,682	275,436
Share of profit of associated companies	24	-	-
Impairment on financial assets and provisions for off-balance, net	12	(576,512)	(673,070)
Impairment of non-financial assets, net	13	(46,323)	(47,426)
Personnel expenses	14	(896,760)	(845,588)
Depreciation	15	(228,540)	(195,992)
Other operating expenses	16	(973,945)	(886,283)
Share of loss of associated companies	24	-	-
<b>Profit/(loss) before tax</b>		<b>2,445,178</b>	<b>1,857,334</b>
Income tax expenses	17	(226,071)	(153,063)
<b>Profit/(loss) for the financial year from continuous operations</b>		<b>2,219,107</b>	<b>1,704,271</b>
Profit/(loss) from a group of assets and liabilities held for sale *		-	-
<b>Profit/(loss) for the financial year</b>		<b>2,219,107</b>	<b>1,704,271</b>
<b>Profit/(loss) for the financial year, attributable to*:</b>			
the shareholders of the bank		-	-
non-controlling interest		-	-
<b>Earnings per share</b>	41		
basic earnings per share (in MKD)		2,598	1,995
diluted earnings per share (in MKD)		2,598	1,995

\* only for consolidated financial statements

Skopje, 24.03.2022

Signed on behalf of NLB Banka AD Skopje 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

**NLB BANKA AD SKOPJE**
**Financial statements for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**Statement of comprehensive income  
for the period from 01.01.2021 to 31.12.2021**

Note	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
<b>Profit/(loss) for the financial year</b>	2,219,107	1,704,271
<b>Other gains/(losses) in the period (before tax)</b>		
<b>Other gains/(losses) in the period, not recognized in the Income statement (before tax)</b>		
Revaluation reserve for equity assets available for sale		
- unrealized net changes in the fair value of equity assets available for sale	92,112	2
- realized net gains/(losses) from equity assets available for sale, reclassified to Other reserves	-	-
Changes in the bank's creditworthiness, for financial liabilities that are measured at fair value	-	-
Income tax on other gains/(losses) that are not shown in the Income statement	-	-
<b>Total other gains/(losses) in the period that are not shown in the Income statement</b>	<b>92,112</b>	<b>2</b>
<b>Other gains/(losses) in the period that are or can be reclassified in the Income statement (before tax)</b>		
Revaluation reserve for debt securities available for sale		
- unrealized net changes in the fair value of debt securities available for sale	(125,903)	69,002
- realized net gains/(losses) from debt securities available for sale, reclassified in the Income statement	-	-
- additional impairment of debt securities available for sale	120	-
- release of impairment of debt securities available for sale	-	-
Revaluation reserve for foreclosed assets		
- revaluation reserve recognized during the year	-	-
- reduction of the revaluation reserve, reclassified in the Income statement	(4)	(3,365)
Reserve for instruments for cash flow risk protection		
- unrealized net changes in the fair value of the instruments for cash flow risk protection	-	-
- realized net profits/(losses) of the instruments for cash flow risk protection, reclassified in the Income statement	-	-
Reserve for instruments for risk protection of net-investing in foreign operations	-	-
Foreign exchange reserve of investment in foreign operations	-	-
Share in other gains/(losses) of associates not recognized in the Income statement	-	-
Other gains/(losses) not recognized in the Income statement	(2,344)	(253)
Income tax on other gains/(losses) that are or can be reclassified in the Income statement	-	-
<b>Total other gains/(losses) in the period that are or can be reclassified in the Income statement</b>	<b>(128,131)</b>	<b>65,384</b>
<b>Total other gains/(losses) in the period</b>	<b>(36,019)</b>	<b>65,386</b>
<b>Comprehensive income/(loss) for the financial year</b>	<b>2,183,088</b>	<b>1,769,657</b>
<b>Comprehensive income/(loss) for the financial year, attributable to*:</b>		
the shareholders of the bank	-	-
non-controlling interest	-	-

\* only for consolidated financial statements

Skopje, 24.03.2022

Signed on behalf of NLB Banka AD Skopje 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

**NLB BANKA AD SKOPJE**
**Financial statements for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**Balance sheet \*\*  
as at 31.12.2021**

	Note	<i>in MKD thousands</i>		
		current year 31.12.2021	previous year 31.12.2020	previous year*** 01.01.2020
<b>Assets</b>				
Cash and cash equivalents	18	19,704,740	17,583,530	
Trading assets	19	-	-	
Financial assets at fair value through profit and loss, designated at initial recognition	20	-	-	
Derivative assets held for risk management	21	804	460	
Loans and advances to banks	22.1	678	502,403	
Loans and advances to other customers	22.2	65,593,290	57,977,711	
Investments securities	23	18,341,504	16,367,473	
Investments in associates (accounted by using equity method)	24	-	-	
Current income tax assets	30.1	-	30,924	
Other assets	25	1,638,367	1,633,256	
Pledged assets	26	-	-	
Foreclosed assets	27	110,086	139,195	
Intangible assets	28	312,447	278,154	
Property and equipment	29	2,007,563	2,032,107	
Deferred tax assets	30.2	-	-	
Non-current assets held for sale and disposal group	31	-	-	
<b>Total assets</b>		<b>107,709,479</b>	<b>96,545,213</b>	
<b>Liabilities</b>				
Trading liabilities	32	-	-	
Financial liabilities at fair value through profit and loss, designated at initial recognition	33	-	-	
Derivative liabilities held for risk management	21	-	-	
Deposits from banks	34.1	357,762	345,173	
Deposits from other customers	34.2	86,231,406	79,434,666	
Issued debt securities	35	-	-	
Borrowings	36	1,518,936	422,377	
Subordinated liabilities	37	2,768,342	1,848,018	
Provisions	38	298,479	254,971	
Current income tax liabilities	30.1	78,730	-	
Deferred tax liabilities	30.2	-	-	
Other liabilities	39	2,386,098	827,163	
Liabilities directly related to the group of assets for disposal	31	-	-	
<b>Total liabilities</b>		<b>93,639,753</b>	<b>83,132,368</b>	

**Balance sheet \*\*  
on 31.12.2021 (continues)**

	Note	<i>in MKD thousands</i>		
		current year 31.12.2021	previous year 31.12.2020	previous year*** 01.01.2020
<b>Equity and reserves</b>				
Share capital	40	854,061	854,061	
Share premium		2,274,484	2,274,484	
Treasury shares		-	-	
Other equity instruments		-	-	
Revaluation reserves		259,947	295,966	
Other reserves		6,969,898	5,299,564	
Retained earnings/(Accumulated losses)		3,711,336	4,688,770	
<b>Total equity and reserves attributable to the shareholders of the bank</b>		<b>14,069,726</b>	<b>13,412,845</b>	
Non-controlling interest*		-	-	
<b>Total equity and reserves</b>		<b>14,069,726</b>	<b>13,412,845</b>	
<b>Total liabilities and equity and reserves</b>		<b>107,709,479</b>	<b>96,545,213</b>	
Contingent liabilities	42	20,274,795	18,362,931	
Contingent assets	42	-	-	

\* only for consolidated financial statements

\*\* this report is also known as "Statement of financial position"

\*\*\* this column is filled only if the bank: retroactively applies accounting policies, makes a retroactive error correction, or makes a retroactive reclassification of items from the financial statements.

Skopje, 24.03.2022

Signed on behalf of NLB Banka AD Skopje by:

Igor Davchevski  
Member of the  
Management board

Günter Friedl  
Member of the  
Management board

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



# NLB BANKA AD SKOPJE

## Financial statements for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### Statement of changes in equity and reserves for the period from 01.01.2021 to 31.12.2021

	Equity				Revaluation reserves					Other reserves			Retained earnings		(Accumulated losses)	Total equity and reserves, attributable to the shareholders of the Bank	Non-controlling interest *	Total equity and reserves
	Share capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve for financial assets available for sale	Revaluation reserve for foreclosed assets	Reserves for risk protection	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserves	Capital component of hybrid financial instruments	Other reserves	Available for distribution to the shareholders	Limited for distribution to the shareholders				
As at 1 January 2020 (previous year)	854,061	2,274,484	-	-	5,884	226,918	-	-	(2,222)	5,299,564	-	-	1,867,759	1,116,740	-	11,643,188	-	11,643,188
Opening balance adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 1 January 2020 (previous year), adjusted	854,061	2,274,484	-	-	5,884	226,918	-	-	(2,222)	5,299,564	-	-	1,867,759	1,116,740	-	11,643,188	-	11,643,188
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	1,704,271	-	-	1,704,271	-	1,704,271
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income/(losses) in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in the fair value of the assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- unrealized changes in the fair value (net)	-	-	-	-	69,002	-	-	-	-	-	-	-	-	-	-	69,002	-	69,002
- realized changes in the fair value (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
transferred to the Income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- additional impairment of debt assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- release of impairment of debt assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- unrealized changes in the fair value (net)	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	2	-	2
- realized changes in the fair value (net) transferred to the Other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change of the fair value of instruments for cash flow risk protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change of the fair value of instruments for risk protection of net-investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences from investing in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax (assets)/liabilities recognized in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the bank's creditworthiness, for financial liabilities that are measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other gains/(losses) that are not recognized in the Income statement (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserve for foreclosed assets	-	-	-	-	-	(3,365)	-	-	-	-	-	-	-	-	-	(3,365)	-	(3,365)
Revaluation reserve for actuarial calculation	-	-	-	-	-	-	-	-	(253)	-	-	-	-	-	-	(253)	-	(253)
Total unrealized income/(losses) recognized in equity and reserves	-	-	-	-	69,004	(3,365)	-	-	(253)	-	-	-	-	-	-	65,386	-	65,386
Total comprehensive income/(loss) for the financial year	-	-	-	-	69,004	(3,365)	-	-	(253)	-	-	-	1,704,271	-	-	1,769,657	-	1,769,657
Transaction with the shareholders, recognized directly in equity and reserves:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shares issued in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation in statutory reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation in other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves (specify)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings from previous years limited for distribution to the shareholders - investment in denars	-	-	-	-	-	-	-	-	-	-	-	-	(177,648)	177,648	-	-	-	-
Transaction with the shareholders, recognized in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	(177,648)	177,648	-	-	-	-
As at 31 December 2020 (previous year) / 1 January 2021 (current year)	854,061	2,274,484	-	-	74,888	223,553	-	-	(2,475)	5,299,564	-	-	3,394,382	1,294,388	-	13,412,845	-	13,412,845

Translation of the Independent auditor's report and Financial statements published in Macedonian

# NLB BANKA AD SKOPJE

## Financial statements for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### Statement of changes in equity and reserves for the period from 01.01.2021 to 31.12.2021 (continues)

		Equity				Revaluation reserves				Other reserves			Retained earning		(Accumulated losses)	Total equity and reserves, attributable to the shareholders of the Bank	Non-controlling interest*	Total equity and reserves	
		Share capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve for financial assets available for sale	Revaluation reserve for foreclosed assets	Reserves for risk protection	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserves	Capital component of hybrid financial instruments	Other reserves	Available for distribution to the shareholders					Limited for distribution to the shareholders
in MKD thousands																			
As at 31 December 2020 (previous year) / 1 January 2021 (current year)		854,061	2,274,484	-	-	74,888	223,553	-	-	(2,475)	5,299,564	-	-	3,394,382	1,294,388	-	13,412,845	-	13,412,845
Opening balance adjustments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at 1 January 2021 (current year), adjusted		854,061	2,274,484	-	-	74,888	223,553	-	-	(2,475)	5,299,564	-	-	3,394,382	1,294,388	-	13,412,845	-	13,412,845
Comprehensive income/(loss) for the financial year																			
Profit/(loss) for the financial year		-	-	-	-	-	-	-	-	-	-	-	-	1,552,683	666,424	-	2,219,107	-	2,219,107
Other income/(losses) in the period																			
Change in the fair value of the assets available for sale																			
Debt instruments																			
- unrealized changes in the fair value (net)		-	-	-	-	(125,903)	-	-	-	-	-	-	-	-	-	-	(125,903)	-	(125,903)
- realized changes in the fair value (net), transferred to the Income statement		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- additional impairment of debt assets available for sale		-	-	-	-	120	-	-	-	-	-	-	-	-	-	-	120	-	120
- release of impairment of debt assets available for sale		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments																			
- unrealized changes in the fair value (net)		-	-	-	-	92,112	-	-	-	-	-	-	-	-	-	-	92,112	-	92,112
- realized changes in the fair value (net), transferred to the Other reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change of the fair value of instruments for cash flow risk protection		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change of the fair value of instruments for risk protection of net-investment in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences from investing in foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax (assets)/liabilities recognized in equity and reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the bank's creditworthiness, for financial liabilities that are measured at fair value		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income/(losses) that are not recognized in the Income statement (specify)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation reserve for foreclosed assets		-	-	-	-	-	(4)	-	-	-	-	-	-	-	-	-	(4)	-	(4)
Revaluation reserve for actuarial calculation		-	-	-	-	-	-	-	-	(2,344)	-	-	-	-	-	-	(2,344)	-	(2,344)
Total unrealized income/(losses) recognized in equity and reserves		-	-	-	-	(33,671)	(4)	-	-	(2,344)	-	-	-	-	-	-	(36,019)	-	(36,019)
Total comprehensive income/(loss) for the financial year		-	-	-	-	(33,671)	(4)	-	-	(2,344)	-	-	-	1,552,683	666,424	-	2,183,088	-	2,183,088
Transaction with the shareholders, recognized directly in equity and reserves																			
Share issued in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation in statutory reserves		-	-	-	-	-	-	-	-	-	1,670,334	-	-	(1,670,334)	-	-	-	-	-
Allocation in other reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends		-	-	-	-	-	-	-	-	-	-	-	-	(1,526,207)	-	-	(1,526,207)	-	(1,526,207)
Purchase of treasury shares		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves (specify)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained earnings from previous years limited for distribution to the shareholders - Investment in denars		-	-	-	-	-	-	-	-	-	-	-	-	(180,000)	180,000	-	-	-	-
Transaction with the shareholders, recognized in equity and reserves		-	-	-	-	-	-	-	-	-	1,670,334	-	-	(3,376,541)	180,000	-	(1,526,207)	-	(1,526,207)
As at 31 December 2021 (current year)		854,061	2,274,484	-	-	41,217	223,549	-	-	(4,819)	6,969,898	-	-	1,570,524	2,140,812	-	14,069,726	-	14,069,726

\* only for the consolidated financial reports

Skopje, 24.03.2022

Signed on behalf of NLB Banka AD Skopje 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 cash flows  
for the period from 01.01.2021 to 31.12.2021**

Note	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
<b>Operating cash flow</b>		
Profit/(loss) before taxation	2,445,178	1,857,334
Adjusted for:		
Non-controlling interest, included in the consolidated Income statement*	-	-
Depreciation of:		
intangible assets	83,814	67,132
property and equipment	144,726	128,860
Capital gain from:		
sale of intangible assets	-	-
sale of property and equipment	(445)	(969)
sale of foreclosed assets	(572)	(6,056)
Capital loss from:		
sale of intangible assets	-	-
sale of property and equipment	-	-
sale of foreclosed assets	29	-
Interest income	(3,322,539)	(3,329,534)
Interest expense	316,355	416,348
Net trading income	(5,546)	45,819
Impairment on financial assets and provision for off-balance, net		
additional impairment	820,513	906,359
release of impairment	(245,758)	(242,570)
Impairment of non-financial assets, net		
additional impairment	46,510	50,790
release of impairment	(187)	(3,364)
Reserves		
additional provision	6,242	11,505
release of provision	(8,258)	(1,990)
Dividend income	(1,057)	(4,264)
Share of profit/(loss) of associates	-	-
Other adjustments	(4,461)	(213)
Interest received	3,477,312	2,756,302
Interest paid	(350,548)	(454,251)
<b>Profit/(loss) from operations before changes in operating assets</b>	<b>3,401,308</b>	<b>2,197,238</b>
<i>(Increase)/decrease of operating assets:</i>		
Trading assets	5,546	(45,819)
Derivative assets held for risk management	460	-
Loans and advances to banks	502,011	(77,912)
Loans and advances to other customers	(8,317,602)	(3,405,037)
Pledged assets	-	-
Foreclosed assets	693	9,236
Obligatory reserve in foreign currency	(500,492)	(270,116)
Obligatory deposit held with NBRNM according to special regulations	-	-
Other receivables	51,589	(322,857)
Deferred tax assets	-	-
Non-current assets held for sale and disposal group	-	-
<i>Increase/(decrease) of operating liabilities:</i>		
Trading liabilities	-	-
Derivative liabilities held for risk management	-	(666)
Deposits from banks	12,586	(196,950)
Deposits from other customers	6,832,275	7,133,046
Other liabilities	153,703	(160,779)
Liabilities directly related to group or assets for disposal	-	-
<b>Net cash flow from operating activities before taxation</b>	<b>2,142,077</b>	<b>4,859,384</b>
(Paid)/received income tax	(116,417)	(166,034)
<b>Net cash flow from operating activities</b>	<b>2,025,660</b>	<b>4,693,350</b>

**Statement of cash flows**
**for the period from 01.01.2021 to 31.12.2021 (continues)**

Note	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
<b>Cash flow from investing activities</b>		
(Investments in securities)	(6,897,972)	(9,080,260)
Inflows from sale of investment securities	4,923,293	3,736,661
(Outflows from investment in subsidiaries and associates)	-	-
Inflows from disposal of investments in subsidiaries and associates	-	-
(Purchase of intangible assets)	(60,897)	(98,658)
Inflows from sale of intangible assets	-	-
(Purchase of property and equipment)	(125,259)	(138,131)
Inflows from sale of property and equipment	445	1,754
(Outflows from non-current assets held for sale)	-	-
Inflows from non-current assets held for sale	-	-
(Other outflows from investing activities)	-	-
Other inflows from investing activities	1,057	4,264
<b>Net cash flow from investing activities</b>	<b>(2,159,333)</b>	<b>(5,574,370)</b>
<b>Cash flow from financing activities</b>		
(Repayment of debt securities issued)	-	-
Inflows from issued debt securities	-	-
(Repayment of borrowings)	(179,344)	(4,771,464)
Increase of borrowings	1,273,550	4,554,815
(Repayment of issued subordinated debts)	-	-
Inflows from issued subordinated debts	924,345	-
Inflows from issued shares/equity instruments during the period	-	-
(Purchase of treasury shares)	-	-
Disposal of treasury shares	-	-
(Dividend paid)	(193,739)	-
(Other financing outflows)	-	-
Other financing inflows from financing	-	-
<b>Net cash flow from financing activities</b>	<b>1,824,812</b>	<b>(216,649)</b>
Effects from allowance for impairment of cash and cash equivalents	1,757	9,281
Effects from foreign exchange of cash and cash equivalents	-	-
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>1,692,896</b>	<b>(1,088,388)</b>
Cash and cash equivalents as at 1 January	14,262,646	15,351,034
<b>Cash and cash equivalents as at 31 December</b>	<b>15,955,542</b>	<b>14,262,646</b>

\* only for consolidated financial statements

Skopje, 24.03.2022

Signed on behalf of NLB Banka AD Skopje 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

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**INTRODUCTION****a) General information**

NLB Bank AD Skopje (hereinafter: the Bank) is a joint stock company registered and established in the Republic of North Macedonia. Strategic shareholder is Nova Ljubljanska banka d.d. Ljubljana (hereinafter: NLB d.d Ljubljana), with a share of 86.97% (2020: 86.97%) in the total capital of the Bank. The Bank is a member of the NLB Group and is a subsidiary of NLB d.d. Ljubljana. The shares of the Bank are listed on the official market of the Macedonian Stock Exchange AD Skopje on the sub-segment Mandatory listing - ordinary shares registered under ISIN: "MKTNBA101019".

As at 31 December 2021 the largest shareholder of NLB d.d Ljubljana with significant influence is the Republic of Slovenia, owning 25.00% plus one share (2020: 25.00% plus one share).

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

Skopje, Municipality of Centar,  
Majka Tereza No.1, p. fax 702  
1000 Skopje, Republic of North Macedonia

The Bank has the authority to perform all banking activities in accordance with the Banking Law. The main activities include approving loans to clients, receiving deposits, providing foreign credit lines, payment operations in the country and abroad, mediating in providing foreign currency assets to clients and banking services to the households.

With the decision issued by the Governor of the National Bank of the Republic of North Macedonia (hereinafter: NBRNM), the Bank has the authority to perform the following activities:

- lending in the country, including factoring and financing of commercial transactions;
- collecting deposits and other refundable assets;
- lending abroad, including factoring and financing of commercial transactions;
- issuing and administrating payment assets (money cards, checks, traveler's checks, bills of exchange);
- payment operations in the country and abroad, including purchase of foreign currency;
- financial leasing;
- exchange operations;
- trading securities;
- trading financial derivatives;
- trading foreign currency, which includes trading precious metals;
- trading instruments on the money market;
- providing custody services for investment and pension funds;
- mediation for conclusion of loan and borrowing agreements;
- issuing payment guarantees, avals and other forms of collateral;
- renting deposit boxes and depots;
- processing and analysis of information on creditworthiness of legal entities;
- economic-financial consulting;
- investment counseling for clients;
- acting as a sponsor at listing;
- performing transactions, activities on behalf of third parties for acquisition of joint stock companies;
- sale, guarantee and placement of securities issue;
- custody of securities for clients;
- advising legal entities on capital structure, business strategy or other related issues or providing services related to the merger or acquisition of legal entities;

**INTRODUCTION (continues)****a) General Information (continues)**

- sale of insurance policies and
- insurance advocacy.

These financial statements have been approved by the Bank's Supervisory Board on 31.03.2022.

**b) Basis for preparation of the financial statements**

The financial statements of the Bank have been prepared in accordance with the Methodology for recording and valuation of the accounting items and for the preparation of the financial statements (Official Gazette No. 83/17), Decision on the types and contents of the financial statements of the banks and the notes on those statement (Official Gazette No. 83/17 and 149/18), the Banking Law (Official Gazette No. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15, 190/16, 7/19, 101/19 and 122/21), other acts adopted by the NBRNM and the Law on Trade Companies (Official Gazette No. 28/04, 84/05, 71/06, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15 6/16, 30/16, 61/16, 64/18, 120/18, 239/18, 290/20 and 215/21).

The financial statements are prepared based on the continuity principle and according to the historical value, except for financial assets available for sale and derivative assets and liabilities measured at fair value.

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates and it is the Macedonian Denar (MKD).

The reporting currency in which the financial statements are presented is the Macedonian Denar (MKD).

Foreign currency transactions are recorded initially in their functional currency using the appropriate exchange rate on the day of the transactions.

At each balance sheet date:

- The monetary assets and liabilities designated in foreign currencies are adjusted using the official average exchange rate of the NBRNM exchange rate list on the balance sheet date and are recognized in the Income statement in the period in which they occurred;
- Non-monetary items that are recorded at historical value, designated in foreign currency, are adjusted using the average exchange rate on the day of transaction;
- Non-monetary items that are recorded at fair value designated in foreign currency are adjusted using foreign exchange rates at the date when the fair value is determined.

The foreign currencies of the Bank are mainly Euro (EUR), US Dollar (USD) and Swiss franc (CHF). The foreign exchange rates used for presentation as at 31.12.2021 and 31.12.2020 are as follows:

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



**INTRODUCTION (continues)****c) Significant accounting policies**

The accounting policies set out below are applied consistently to all periods presented in these financial statements, unless otherwise stated. The basic accounting policies applied in the preparation of the financial statements are presented in the text below.

**1. Classification of financial assets and financial liabilities****1.1 Financial assets**

A **financial asset** is an asset which is:

- cash;
- equity instrument issued by another legal entity;
- contractual right to receive money or other financial asset from another person;
- contractual right to exchange financial instruments with another person under conditions that are potentially favorable for the Bank or
- contract that can be settled or will be settled with equity instruments of the Bank and is:
  - non-derivative for which the Bank is or may be liable to receive a variable number of its equity instruments or
  - derivative that can or will be settled in a different way, not by exchanging a certain amount of money or another financial asset for a fixed number of its equity instruments.

**1.1.1 Classification**

Financial assets are classified into one of the following categories:

- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income and
- financial assets measured at fair value through profit and loss.

The Bank classifies the financial assets upon their initial recognition.

The classification of financial assets is carried out on the basis of:

- the business model of the Bank for managing financial assets and
- the characteristics of the contractual cash flows of the financial asset.

In the category of **financial assets measured at amortized cost**, the Bank classifies the financial assets that meet the following criteria:

- the Bank manages the financial assets for the purpose of collecting contractual cash flows and
- in accordance with the contractual terms of the asset, the requirement of "solely payment of principal and interest" (hereinafter: SPPI) is met.

In this category of financial assets, the Bank classifies cash, debtors, lease receivables, fee and commission receivables and any other financial assets that are credit risk exposures in accordance with the Decision on the Methodology for credit risk management, and for which the SPPI requirement is inapplicable. These assets do not require fulfillment of the SPPI.

In the category of **financial assets measured at fair value through other comprehensive income**, the Bank classifies financial assets that meet the following criteria:

- the Bank manages the financial asset for the purpose of collecting contractual cash flows and/or for sale and
- in accordance with the contractual terms of the asset, the requirement of SPPI is met.

**1. Classification of financial assets and financial liabilities (continues)****1.1 Financial assets (continues)****1.1.1 Classification (continues)**

In the category of **financial assets measured at fair value through profit and loss**, the Bank classifies the financial assets that are managed for the purpose of trading and realizing profit from changes in the fair value of the asset. This is also a residual category, i.e. the Bank in this category also classifies all those financial assets that do not meet the criteria of the other two categories.

**1.1.2 Business model**

The assessment of the business model of the Bank is carried out at the level of the business process, and not by a separate instrument. The Bank has several business processes for managing financial instruments. The Bank use and manage a particular type of financial instrument in different ways, so that one type of financial instrument can appear in different business processes for managing financial instruments. The assessment of the business model is performed by the Bank's key management, taking into account all relevant and available data on the manner of managing financial instruments, in particular: how is the success/ performance of the business model monitored and how it is reported to the key management of the Bank; what are the risks that affect the realization of this business model and how those risks are managed; what are the rewards to the management of the Bank based on, etc.

Thus:

- the purpose of the business model for the category of financial assets measured at amortized cost is the Bank to keep the financial assets for collecting contractual cash flows. Moreover, if certain financial instruments of this category are sold before their agreed maturity (early sales), that is not a direct indicator of the change of the business model of the Bank, especially if such sales are not large, are not with increased frequency and if in the future it is expected that such or similar financial instruments will be managed within such a business model. In case of an early sale of these assets, the Bank should analyze whether there has been a change in the business model of the Bank for these financial assets, taking into account the frequency data, the periods and the sales volume, the reasons for the sales and the Bank's expectations to sell assets of this category in the future;
- the purpose of the business model for the category of financial assets measured at fair value through other comprehensive income is that the Bank keeps the financial assets for liquidity management, maintenance of a certain interest yield, in order to adjust the maturity (duration) of the financial assets with the maturity (duration) of the financial liabilities that are the source of those financial assets etc.;
- the purpose of the business model for the category of financial assets measured at fair value through the Income statement is that the Bank manages the financial assets through active and frequent trading in order to realize profit from the changes in the fair value of the assets. The Bank manages these assets in order to realize their market/fair value and makes management decisions based on their market/fair value.

The Bank has established the following business models:

- business model for financial assets for the purpose of collecting contractual cash flows when approving credit exposure to banks and other clients;
- business model for financial assets for the purpose of collecting contractual cash flows and business model for financial assets for the purpose of collecting contractual cash flows and/or for sale, for financial assets securities which include: treasury bills, government bills and government bonds;
- business model for equity financial assets measured at fair value, for which changes in the fair value are recorded in the revaluation reserves within the Other comprehensive income;
- business model for equity financial assets measured at fair value, for which changes in fair value are recorded in the revaluation reserves within the Other comprehensive income, for equity instruments for which there is no active market and whose possession is determined by law(s) or is related to the possibility of using the services provided by these institutions;

**1. Classification of financial assets and financial liabilities (continues)****1.1 Financial assets (continues)****1.1.2 Business model (continues)**

- business model for financial liabilities for the purpose of paying the agreed cash flows for the financial liabilities that include: deposits from banks and other customers, issued debt securities, borrowings and subordinated liabilities, and
- business model for financial liabilities held for the purpose of trading including financial liabilities held for trading, 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.

**1.1.3 SPPI test - Solely Payments of Principal and Interest**

Debt financial assets which according to the business model of the Bank should be classified in the categories of financial assets measured at amortized cost or financial assets measured at fair value through other comprehensive income should meet another condition - in accordance with the contractual terms of the asset, the Bank expects cash flows on certain dates "solely on the basis of payment of principal and interest" - SPPI. Within the contractual cash flows, the "principal" element covers the amount at the initial approval, decreased for all payments; and the element "interest" represents compensation for the time value of money, credit risk, liquidity risk, administrative or service costs and profit margin.

In order to meet the SPPI requirement, the contractual cash flows should not include any exposure to risks or volatility that does not represent ordinary credit arrangement (for example, exposure to the risk of a change in prices of shares or goods/commodities). The assessment of whether the SPPI is met is made in the currency in which the asset is denominated. The SPPI requirement can only be considered for debt financial assets. The Bank should classify those debt financial assets which are assessed that do not meet the SPPI requirement as financial assets measured at fair value through profit and loss and will measure their fair value.

The analysis of whether the SPPI requirement is met is made upon the initial recognition of each debt financial asset.

The analysis of whether the SPPI requirement is met is based on the contractual terms of the instrument and all cash flows specified in the agreement are considered. For those debt financial assets that arise from a particular product for which the Bank has a standard type of contract on product level (or contractual terms) applicable to all individual receivables for that product, the Bank carries out the analysis whether the SPPI requirement is met at the product level and not on individual financial asset.

When analyzing whether the SPPI requirement is met, the Bank also considers the following:

- for financial assets with a different interest rate than normally applied to the same or similar financial instruments, the Bank makes a comparison between the undiscounted cash flows of the analyzed financial asset and the undiscounted cash flows of a financial asset with same credit quality and under the same contractual terms, except the interest rate (so-called "benchmark" instrument). If the difference between the cash flows of the two instruments is significant, the analyzed instrument does not meet the SPPI requirement and is classified and measured at fair value through profit and loss;
- for financial assets for which the regulator prescribes a maximum interest rate that must not be exceeded, are considered that they meet the SPPI requirement;
- for financial assets for which a minimum/maximum value under/over which the interest rate cannot decrease/exceed, in accordance with the contractual terms, are considered that they meet the SPPI requirement;
- for financial instruments whose interest rate is periodically adjusted for the inflation rate, it is considered that they meet the SPPI requirement;
- for financial assets for which the change in the interest rate is stipulated by the contractual conditions, if a change in the creditworthiness of the client occurs (stipulated in the agreement that it is monitored through any indication of the client's creditworthiness, for example: failure to pay the contractual obligations in a certain deadline, deterioration/

**1. Classification of financial assets and financial liabilities (continues)****1.1 Financial assets (continues)****1.1.3 SPPI test - Solely Payments of Principal and Interest (continues)**

improvement of the internal or regulatory risk category, exceeding a certain value of a certain financial indicator/s for the client's operations, etc.) are considered to meet the SPPI requirements;

- for financial instruments approved in denars with a FX clause, are considered to meet the SPPI requirement (if other characteristics of the instrument indicate meeting the SPPI requirement);
- if the financial instrument contains a certain feature due to which the SPPI requirement is not met, but this feature has insignificant influence on the contractual cash flows of the assets (de minimis feature), the Bank considers that the SPPI requirement is met;
- if the financial instrument contains a certain characteristic that could change the contractual cash flows of the asset only if an extremely rare event occurs, that is very unlikely to happen, the Bank considers that the SPPI requirement is met;
- if the contractual terms of the financial instrument provides the possibility of early repayment, and if the amount that would be charged in case of early repayment represents the amount of the outstanding principal and the due outstanding interest, as well as a reasonable fee for early termination of the contract (up to 5% of early repaid amount), the Bank considers that the SPPI requirement is met;
- if the contractual terms of the financial instrument provides the possibility of extending the maturity date and if the cash flows in the extended maturity period meet the SPPI requirement (it may include reasonable fee for the extension of the maturity period), the Bank considers that the SPPI requirement is met.

In case of a change in the contractual cash flows of an existing financial asset, the Bank shall, at the date of the amendment, re-evaluate/verify whether the SPPI requirement with the new amended contractual terms has been met and shall appropriately classify the financial asset.

**1.1.4 Reclassification**

The 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 activities of the Bank and similar. 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 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 recognized profits or losses. The reclassification of equity assets from one category to another is not allowed.

**1.1.5 Principles of measurement of value**

The Bank uses two types of measurement of the value of the assets and liabilities:

- principle of measurement at amortized cost and
- principle of measurement at fair value.

**1.1.5.1 Principle of measurement at amortized cost**

Amortized cost of a financial asset or a financial liability is the amount at which the asset or liability is measured, considering:

- the amount upon initial recognition;
- reduced for the payments of principal;
- reduced or increased for the amount of accumulated amortization using the effective interest rate method, for each difference between the amount upon initial recognition and the maturity amount; and

**1. Classification of financial assets and financial liabilities (continues)****1.1 Financial assets (continues)****1.1.5 Principles of measurement of value (continues)****1.1.5.1 Principle of measurement at amortized cost (continues)**

- reduced for allowance for impairment due to impairments or non-collectability.

***Effective interest rate***

The effective interest rate is equal to the rate that discounts the expected future cash inflows and outflows of the instrument to the date of the instrument's ultimate maturity or for a shorter period of time, if appropriate. Measurement using the effective interest rate method allows amortization of the cost value of the financial instrument and interest income/expense during the expected maturity period of the instrument.

When calculating the effective interest rate, should be considered:

- all expected future cash flows;
- all paid and/or charged fees and commissions that are part of the effective interest rate of the financial asset or liability (fees for assessing the financial position of the client, mediation in negotiating the terms of the financial instrument, fees for filing a request and processing the application for approval of loans, fees for withdrawal of assets under the financial instrument, regular monthly fee for managing the loan until the final maturity of the loan which is credited and collected in the same moment with crediting and collection of the regular contractual interest, etc.);
- transaction costs directly related to the transaction (fees and commissions paid to sales agents, consultants, brokers, dealers, fees to regulatory bodies, paid taxes and customs, etc.) and
- premiums and/or discounts granted to the financial instrument.

When calculating the effective interest rate, should not be considered:

- impairments (impairment losses).

Fees and commissions which are an integral part of the effective interest rate, 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 of the financial asset, i.e. liability and are appropriately delimited and recognized in the Income statement as interest income, i.e. interest expenses, in the maturity period of the financial instrument.

The Bank makes a substantial analysis of fees and commissions related to the credit products and determines whether they are an integral part of the effective interest of the loan or represent a fee for the service given by/to the Bank. Moreover, if the compensation is directly related to the loan approval or represents a fee charged/paid on a regular basis at the same time with the crediting and the collection/payment of the regular contractual interest, until the final maturity of the loan, it is an integral part of the effective interest. If the fee is compensation for another service, other than the loan approval, made by/to the Bank, it is an income/expense from fees and commissions. Consequently, fees and commissions will be recorded as accumulated amortization of the loan and interest income/expense, or as receivables/liabilities and income/expense from fees and commissions.

***Modification of financial assets***

The Bank may, under certain conditions, change the contractual terms of the financial assets.

Financial assets for which contractual terms, that have direct impact on the cash flows, were changed during their lifetime are called "modified financial assets."

Changes in the contractual terms of the Bank's assets may arise at the request of the debtors due to a deteriorated financial position or for the purpose of obtaining more favorable conditions, as well as due to changes in the interest rates on the market, customer loyalty rewards and similar.

**1. Classification of financial assets and financial liabilities (continues)****1.1 Financial assets (continues)****1.1.5 Principles of measurement of value (continues)****1.1.5.1 Principle of measurement at amortized cost (continues)**

When changing the contractual terms of the assets, the Bank makes an analysis and determines whether the client has financial difficulties, or whether there are signs of deterioration in the financial position. If the client has deteriorated financial position or has signs of deterioration, the change of the contractual terms is a restructuring of assets. If the change of contractual terms is of a commercial interest to the Bank, it is a refinancing of assets that leads to derecognition of the old financial asset and recognition of a new financial assets.

When changing the contractual terms of a particular financial asset, the Bank also assesses whether there has been deterioration in the credit risk of the modified asset by comparing the credit risk of the modified contractual terms and credit risk at initial recognition of the financial asset (with initial contractual unmodified terms).

When changing the contractual terms of the assets while restructuring, the Bank makes an assessment whether the change of the contractual terms is significant or not and at the date of the change checks whether the SPPI is passed with the new changed contractual terms.

If the new contractual terms are significantly different from the original terms, then the change will result in derecognition of the old financial asset and opening of a new modified financial asset.

If the new contractual terms are not significantly different from the original terms and do not qualify for derecognition, then the changes are reflected on the existing financial asset with recording of modification gain/loss arising from the changed contractual terms.

As an exception, in some cases changes of the contractual terms of the financial assets should not result in the recognition of gains/losses from the change in the Income statement as these changes are insignificant.

The Bank recognizes the difference between the new carrying amount of the changed asset and the carrying amount of the asset before the change in the contractual cash flows, as a gain or loss of the change in the Income statement within the interest income accounts and the accumulated amortization accounts within the appropriate group of accounts for financial receivable in the Balance Sheet.

The carrying amount of the amended asset is equal to the present value of future expected revised cash flows, discounted using the initial / original effective interest rate. Crucial for the Bank is to determine when the contractual cash flows have changed to the extent that the criteria for derecognition are met/not met. Hence, the Bank will determine the significance of the changes in the contractual cash flows, through a qualitative and quantitative test.

The qualitative test of significance includes changes in the contractual terms which are self-sufficient indicator for derecognition of the old financial asset and recognition of a new financial asset without additional making a quantitative test (for example: refinancing, consolidation of multiple claims into one claim, change of debtor, change of currency, conversion of part of the credit exposure in a capital investment of the client, not passed SPPI test, etc.).

The quantitative test of significance is expressed in a percentage value of at least 10%, which is determined when the discounted present value of the cash flows under the new terms using the original effective interest rate is at least 10% different from the carrying value of the remaining cash flow of the original financial asset.

In the event of a change only in the remaining the remaining agreed collection period of the receivables, change only in the adjustable interest rate, early repayment to the contractual repayment period or insignificant / small amounts of the subscription, the Bank does not recognize gain or loss from the change in the Income statement, because those changes are insignificant.

**1. Classification of financial assets and financial liabilities (continues)****1.1 Financial assets (continues)****1.1.5 Principles of measurement of value (continues)****1.1.5.2 Principle of measurement at fair value**

Measurement at fair value assumes that the asset or liability is exchanged between market participants, in an ordinary transaction, according to current market conditions at the measurement date.

The fair value is determined in different manners, depending on whether the asset or liability is traded on an active market or it is not traded.

**Active Market: Published price**

An active market is the market where transactions of asset or liability are carried out with sufficient frequency and scope to provide price information for the asset or liability.

The relevant quoted market price for the asset or the liability is that within the range between the purchase and the sale price, which best represents the fair value in the relevant circumstances. Usually the current one is used: the purchase price of the asset held or of the obligation to be issued, i.e. the sale/offered price for the asset to be acquired or for the obligation to be held; the average market price or other price in accordance with the usual, accepted market practice.

**No active market: valuation techniques**

If there is no active market for the financial asset or liability, the Bank uses valuation techniques for which it has the most available data, to determine the fair value of the asset or the 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 are used) and *income approach* (discounted value of current market expectations for future amounts (cash inflows or income and expenses) of the asset or the 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 on the prices of the recent transactions for the same financial instrument, then for determination of the fair value should be taken the current market price of another instrument, which is essentially the same (in the sense that it is with the same currency and with the same or similar maturity);
- if no information of the fair value of the financial instrument can be obtained from the markets, then for determination of the fair value of the financial instrument are used data that can not be confirmed on the markets.

Valuation techniques should cover all factors that market participants consider 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 development of new markets, availability of new information, changes in the market conditions or the improvement of the valuation technique, and if it gives more appropriate fair 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 applied technique for determining the fair value of many assets and liabilities. One of the most important factors in applying this technique is determining the appropriate discount rate.

**1. Classification of financial assets and financial liabilities (continues)****1.1 Financial assets (continues)****1.1.5 Principles of measurement of value (continues)****1.1.5.2 Principle of measurement at fair value (continues)**

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;
- with reference to a risk-free rate, corrected for the corresponding risk of the asset. When determining the discount rate, both 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, as compensation for the uncertainty of the future cash flows of the asset.

**No 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. For the Bank's 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.

**1.1.6 Derecognition**

The Bank derecognizes a financial asset or part of a financial asset only when it loses control of the contractual rights accompanying the financial asset. This control is lost:

- if exercises (uses) the rights of the benefits determined by the contract;
- if the rights expire and
- if are sold.

The Bank derecognizes the financial asset, in whole or in part, if full or partial recovery of contractual receivables is not expected.

At the time of derecognition of available for sale assets (sold or matured, etc.), the cumulative gains or losses previously recognized in equity is derecognized from equity and net gains or losses are recognized in the Income statement as other income/other expenses, except in case of derecognition of equity securities, the amounts recognized in the Revaluation reserves the Bank will transfer on the account for Retained earnings / Accumulated losses.

For those financial instruments that are held to maturity, the gain or loss on derecognition is recognized in the net profit or loss of the Bank.



**1. Classification of financial assets and financial liabilities (continues)****1.2 Impairment/allowance for impairment of financial assets and provisions for off-balance sheet exposure****1.2.1 Impairment/allowance for impairment of financial assets and provisions for off-balance sheet exposure**

On monthly basis, the Bank assesses and recognizes impairment/allowance for impairments for expected credit losses on financial assets carried at amortized cost and on debt financial assets measured at fair value through other comprehensive income, as well as provisions for off-balance sheet credit exposure and for receivables based on lease agreements, receivables from debtors and other receivables that are part of the credit risk exposure.

In determining expected losses, credit risk exposure is classified into one of the following three credit risk groups:

- Stage 1, includes all financial assets at initial recognition (except those purchased with expected credit losses), financial assets with low credit risk and financial assets that do not have significant deterioration of creditworthiness after initial recognition. Allowance for impairment of financial assets in Stage 1 represents the lifetime expected losses of the asset that would result from event of loss that could occur in the next 12 months or a shorter period, if the asset's life is shorter than 12 months (not expected cash losses over the next 12 months), i.e. is equal to expected credit losses for lifetime of asset, weighted by the probability that a specific event of loss will occur during the following 12 months.
- Stage 2, includes financial assets that have significant deterioration of creditworthiness after initial recognition, but there isn't any objective evidence for impairment (transfer from Stage 1). Allowance for impairment includes expected credit losses that may occur as a result of all loss events of the remaining life of an asset.
- Stage 3, includes financial assets that have objective evidence for impairment and financial assets purchased or issued with explicit expected credit losses. Allowance of impairment of assets is equal to the total amount of expected credit losses that may occur as a result of all loss events of the remaining life of an asset.

The amount of credit loss is equal to the difference between:

- the contractual cash flows of the asset and
- expected cash flows of the asset, discounted with the original effective interest rate (present value of expected cash flows).

The determination of the amount of expected losses is based on the following basic principles:

- measuring and recognizing expected credit losses for the lifetime of the financial asset and/or for off-balance sheet credit exposure;
- should reflect/represent expectations of creditworthiness (credit quality), deterioration and improvement over the lifetime of an asset;
- to react to information for changes in the credit quality of a financial asset and/or of the off-balance sheet credit exposure, so that in case of information for expected significant deterioration in credit quality, a transfer from Stage 1 to Stage 2 or Stage 3 should be made.

Initially, all financial assets, except those that meet the criteria for classification in Stage 2 or Stage 3, should be classified in Stage 1. In Stage 1 are classified all financial assets that have low credit risk at the reporting date, and also those financial assets that do not have a significant increase in credit risk from initial recognition. If the Bank notice a significant deterioration in the creditworthiness of the asset after initial recognition, the Bank should reclassify the exposure from Stage 1 to Stage 2, whereas the transfer to Stage 3 occurs when there is objective evidence that impairment has occurred.

**1. Classification of financial assets and financial liabilities (continues)****1.2 Impairment/allowance for impairment for financial assets and provisions for off-balance sheet exposure (continues)****1.2.1 Impairment/allowance for impairment of financial assets and provisions for off-balance sheet exposure (continues)**

Financial assets with low credit risk are those that meet the following criteria:

- have a low risk of default;
- it is assessed that in the short term the debtor has the capacity to fulfill the obligations;
- the Bank's expectations/perceptions are that long-term, negative changes in economic and business conditions could, but not necessarily, reduce the ability of the debtor to meet its obligations.

In Stage 2 are classified those financial assets that have a significant deterioration in credit risk after initial recognition, but there is no objective evidence of impairment loss.

In Stage 3 are classified those financial assets for which there is one or more objective evidence that impairment has occurred. The objective evidence that impairment has occurred are:

- significant financial difficulties of the borrower or of the issuer of a debt financial instrument;
- breach of agreement, such as significant delays in payments or non-payments;
- creditors have been granted some relief to the borrower because of his deteriorating financial position;
- there is a possibility that the borrower may initiate bankruptcy or other forms of financial reorganization;
- absence (disappearance) of an active market for a financial asset due to the financial difficulties of the issuer and
- purchase or issue of a financial asset, at a significant discount due to incurred credit losses.

The assessment of whether there has been a significant deterioration in credit quality (a significant increase in credit risk) after initial recognition should be based on an assessment of risk of default, i.e. it should be compared the risk of default on the assessment date (current date) and the assessed risk of default on this date at initial recognition. This assessment should be based on the change/deterioration of the risk of default for the lifetime of the asset, and not the change/increase in the amount of expected credit losses. If the asset has a low credit risk at the reassessment date, the Bank may consider that no significant deterioration in the creditworthiness of the asset has occurred.

In assessing whether there is a significant increase in credit risk, the Bank takes into account all reasonable and available supportive information, such as: changes in external conditions (e.g. market conditions), changes in the Bank's internal conditions and changes of the debtor. The information is based on past experience, current situation and forecasts of future conditions. An example of the type of information that the Bank follows to assess whether a significant credit risk increase has occurred is: current or expected changes in the external credit rating of the financial instrument, Bank's analysis of the debtor's creditworthiness, credit risk growth, etc. If there is a delay in the payment of the contractual obligations over a period of more than 31 days, there is considered to be a significant increase in the credit risk of the asset and, consequently, the Bank reclassifies the assets from Stage 1 to Stage 2.

The risk of default is considered to arise at the latest in the event of a delay of more than 90 days and the Bank classifies those financial assets in Stage 3.

The estimation of the amount of expected credit losses is made at the amount of the maximum contractual residual credit exposure of the asset (no higher amount) for the duration of the remaining lifetime of the financial asset. Except, only credit products that on specific date consists of used and unused part (credit commitments, e.g. credit cards, approved overdrafts, etc.), the expected credit loss is estimated for the estimated life of the Bank's credit product.

- 1. Classification of financial assets and financial liabilities (continues)**
- 1.2 Impairment/allowance for impairment for financial assets and provisions for off-balance sheet exposure (continues)**
- 1.2.1 Impairment/allowance for impairment of financial assets and provisions for off-balance sheet exposure (continues)**

When determining the present value of expected future cash flows, for discounting purposes an effective interest rate on an annual basis is used.

For discounting of expected future cash flows of receivables with floating rate, the Bank applies effective interest rate, in accordance with the contract, which is effective at the date of determining the present value of the expected cash flows. In these cases, the effective interest rate is calculated for the entire period of the contract (not just the remaining period until maturity), using the interest rate that is effective at the date of determining the present value of the expected cash flows.

If, due to financial difficulties of the client, the Bank approves an amendment to the terms of the lending, regarding the amount of interest and repayment period of the client's liabilities, for discounting of expected future cash flows an effective interest rate that was valid before changes of the terms of lending is used.

At the time of transfer from Stage 1 to Stage 2 or Stage 3, in the Income statement are recognized all the amounts of expected credit losses for the remaining lifetime of an asset.

Return from Stage 2 or 3 to Stage 1 is only possible for those assets that were initially classified in Stage 1, but only if the conditions for their classification in Stage 2 or 3 no longer exist, or if their creditworthiness(credit quality) is significantly improved and at the revaluation date have low credit risk.

In assessing the credit risk/credit quality of an asset, the value of the collateral given for that financial asset is not considered. The value of the collateral, less any costs related to the acquisition and sale of the collateral, is considered only when calculating the required amount of allowance for impairment/provision.

Impairment losses on investment in equity instruments are not calculated.

The Bank determines expected credit losses on an individual basis.

When assessing on an individual basis, the risk that the asset carries from the point of view of the group of similar financial assets should be taken into account, i.e. those assets with similar credit characteristics that demonstrate the debtor's creditworthiness for repayment of amounts that are due, such as: type of the instrument, credit ratings, type of collateral, the date of origin of an asset, residual maturity, activity, geographical location of the debtor etc. Expected credit losses that arise from a group of similar financial assets are estimated on the basis of the Bank's past experience for losses of financial assets with credit characteristics that are similar to those in the group, current conditions and estimates of future events and conditions in the economy.

If allowance for impairment is determined on an individual basis, the carrying amount of the asset should be reduced to its estimated expected recoverable amount by using an account for impairment within the respective asset. The amount of the loss is included in the Income statement in the line Impairment on financial assets and provisions for off-balance, net.

If, at a subsequent date of assessment, the Bank determines a lower amount of allowance for impairment, the difference with the previously recognized amount of allowance for impairment (impairment loss) is released/reversed by adjusting the account for allowance for impairment within the respective asset.

Reversal of allowance for impairment should not lead to carrying amount of the financial asset exceeding the amount that would otherwise represent the amortized cost of the asset, if impairment was not recognized. The amount of the reversal is included in the Income statement in the line Impairment on financial assets and provisions for off-balance, net.

- 1. Classification of financial assets and financial liabilities (continues)**
- 1.2 Impairment/allowance for impairment for financial assets and provisions for off-balance sheet exposure (continues)**
- 1.2.1 Impairment/allowance for impairment of financial assets and provisions for off-balance sheet exposure (continues)**

***Impairment/allowance for impairment of debt securities available for sale***

For debt securities available for sale for the amount of the allowance for impairment, cumulative loss (the difference between the initial value at cost and the current fair value of the asset) that was recognized directly in revaluation reserves, should be deducted from revaluation reserves and recognized in the Income statement in the line Impairment on financial assets and provisions for off-balance, net, although the financial asset is not derecognized.

If, in the subsequent period, the fair value of the debt instrument classified as available for sale increases, and the increase can be objectively linked to an event that occurred after the impairment loss was recognized in the Income statement the allowance for impairment is reversed/ released. The amount of the reversal will be included in the Income statement in the line Impairment on financial assets and provisions for off-balance, net. The remaining amount, up to the new fair value (if any), represents an increase in the fair value of the asset and is recognized in revaluation reserves.

In the financial statements of the Bank, the balance on accounts for impairments within the accounts for investments in available for sale debt securities the Bank presents as a revaluation reserve for available for sale, and not as part of the Assets.

**1.2.2 Extension of the maturity date**

Extension of the maturity date means extension of the deadline for settlement, where the extension is not a consequence of the deteriorated financial position of the client, but of changes in the financial services offered by the Bank and/or changes in the operations of the client and/or the Bank.

At each extension of the maturity, the Bank is obliged to analyze the reasons for the extension.

**1.2.3 Restructuring of a receivable**

Credit exposure restructuring means changing the contractual terms of the credit exposure or approving a new credit exposure for closure of an existing credit exposure to a client who has a deteriorated financial position or has signals of deterioration of his financial position, due to which may or may not respect the contractual terms.

Credit exposure restructuring includes at least:

- extension of maturity deadline;
- change in the amount and dynamic of repayment of the credit exposure, including approval of a new or extension of the existing grace period;
- reduction of the interest rate;
- consolidating multiple claims in a single credit exposure by changing contractual terms, including interest capitalization;
- converting part of the credit exposure into equity instruments of the client;
- write-off of credit exposure based on principal and/or interest or commission;
- reducing credit exposure through collateral;
- approval of a new credit exposure on the day or within 31 days of the maturity of the existing credit exposure, which closes claims on the basis of existing credit exposure, fully or partly, whose contractual terms the client may not or could not fulfill unless the changes to the contractual terms were made.

Restructured credit exposure is treated as non-performing restructured credit exposure if at least the following conditions are met:

**1. Classification of financial assets and financial liabilities (continues)****1.2 Impairment/allowance for impairment for financial assets and provisions for off-balance sheet exposure (continues)****1.2.3 Restructuring of a receivable (continues)**

- at the date of restructuring, the credit exposure had been treated as non-performing credit exposure or would have become non-performing credit exposure if the restructuring had not been carried out;
- the amount of write-off of credit exposure during restructuring is greater than the amount of impairment/provision made.

Credit exposure may be excluded from the category of restructured credit exposures if the following conditions are met:

- at least two years have past from the date of restructuring, or the date when the conditions for excluding credit exposure from the category of restructured non-performing credit exposure were met, i.e. the trial period has past, and
- at the end of the trial period, all customer credit exposures of the client are classified in the "A" risk category.

Trial period means a period of two years from the date of restructuring or the date when the conditions for excluding credit exposure from the category of restructured non-performing credit exposure were met.

Restructured non-performing credit exposures may be excluded from the category of restructured non-performing credit exposures if the following conditions are met:

- at least one year has passed since the credit exposure received the treatment of restructured non-performing credit exposure;
- on the basis of credit exposure, the client has no liabilities that are longer than 31 days overdue;
- an amount equal to the one that was due and/or written-off during the restructuring is paid, and
- there have been changes in the creditworthiness of the client indicating that the client will be able to comply with the contractual terms.

If during the trial period a new credit exposure restructuring is performed or if the client is more than 60 days overdue on the basis of the restructured credit exposure, that credit exposure is treated as a restructured non-performing credit exposure.

The net effect of the restructuring of the receivable must not lead to an increase in the financial result of the Bank, except in cases of a decrease in the credit exposure as a result of collection. Within a period of six months after the restructuring, the Bank shall not record revenue on the basis of the release of the impairment/provision, which is not the result of collection of the credit exposure.

As an exception, the Bank may determine a better risk category and/or calculate a lower amount of impairment/provision, only if the credit exposure arising as a result of the restructuring is provided with a first-class collateral instrument.

The restructuring by the Bank, is in accordance with the Decision on the credit risk management methodology (Official Gazette No. 149/18) and the amendments to it that were adopted to overcome the effects of KOVID-19.

**1.2.4 Write-off of receivables**

Write-offs of credit exposure are made at least in the following cases:

- the Bank has no right to future cash flows, i.e. the rights to repay the credit exposure have expired, irrespective of the basis for which the rights have been lost or expired, which

**1. Classification of financial assets and financial liabilities (continues)****1.2 Impairment/allowance for impairment for financial assets and provisions for off-balance sheet exposure (continues)****1.2.4 Write-offs receivables (continues)**

include: final court decision for groundlessness of the claim; final court decision for no having right to a claim by the Bank, final court decision for closed bankruptcy procedure, final court decision for approved plan for reorganization of the debtor in bankruptcy;

- the Bank has no reasonable expectations for repayment of the credit exposure, in whole or partly;
- the bank has made a decision to discharge the debt in accordance with a law that cancels further collection of the debt;
- it is individually insignificant credit exposure;
- twelve months have passed since the date the Bank was required to make an impairment, i.e. provision of 100%.

The Bank may perform a partial or complete write-off of receivables, whereby the written off receivable is transferred to a special off-balance sheet account (with the exception of small amounts of individually insignificant claims) and for which the Bank keeps a separate record for a period of at least ten years.

**1.3 Cash and cash equivalents**

Cash of the Bank include:

- cash in the cash office (in denars and foreign currency);
- account of the Bank at NBRNM;
- unlimited deposits in NBRNM, including the mandatory reserve and
- demand deposits (including transaction accounts).

Cash equivalents of the Bank include:

- time deposits with an initial maturity of three months or less, from the date of acquisition;
- restricted deposits with a maturity of three months or less, from the date of acquisition;
- treasury bills and government bills that can be traded on a secondary market with a maturity of three months or less, from the date of acquisition and
- other highly liquid financial assets with a maturity of three months or less, from the date of acquisition.

For the purpose of preparing the cash flow statement, mandatory reserve in foreign currency and restricted deposits is excluded from cash and cash equivalents.

The Bank recognizes cash at the moment when it is made available for unlimited use, on the basis of the submitted statements for the balance and the turnover of those assets.

The Bank recognizes treasury bills and similar securities as assets at the date of trading.

Cash and cash equivalents are measured at amortized cost, which is usually equal to their nominal value, excluding treasury bills which are measured at fair value through other comprehensive income.

**1.4 Loans and receivables**

Loans and receivables include all receivables arising from transactions with customers and banks, those originated by the Bank as well as those acquired on the secondary market. Loans and receivables are non-derivative financial assets that meet the SPPI requirements.

Loans to financial companies given under a repurchase agreement ("reverse repo") are presented separately as approved loans for which securities are pledged as collateral. Pledged securities are recorded on off-balance accounts.

**1. Classification of financial assets and financial liabilities (continues)****1.4 Loans and receivables (continues)**

Loans and receivables to other clients include loans and receivables from different clients, net investments in financial leasing and other receivables.

Loans and receivables to banks include loans to banks, time deposits in banks with an original maturity of more than 3 months, repurchase agreements and other receivables. Loans to banks are defined as transactions for which the concluded loan agreement is valid.

The Bank recognizes loans and receivables as assets in the Balance sheet on the date when it becomes a party to the contractual provisions of the instrument, i.e. when the asset is delivered.

Loans and receivables are initially recorded at cost (fair) value. Transaction costs that are directly related to acquisition or issue are included in the initial measurement of loan receivables. After initial recognition, loan receivables are measured at amortized cost using the effective interest rate method.

**1.5 Financial assets at fair value through profit and loss**

Financial assets at fair value through profit and loss are initially recognized at fair value. The transaction costs of these assets are not included in the amount according to which the instrument is initially measured. They are recorded immediately in the Income statement in the line Fee and commission income/expenses.

After initial recognition, financial assets at fair value through profit and loss are measured at fair value (the fair value is the purchase price of the assets and the sale price for liabilities) without reducing the transaction costs that may arise from the sale or disposal.

Gains or losses from fair value changes should be included in the Income statement in the period in which they arise as follows: for trading assets - in the line Net trading income; for financial assets at fair value through profit and loss designated at initial recognition - in the line Net income from other financial instruments at fair value.

Derivatives are recognized on the date of trading.

Derivatives are derecognized from the Balance sheet in case of realization, expiry or other reasons for derecognition.

**1.5.1 Financial assets held for trading**

Financial assets classified as held for trading are those assets that the Bank acquires or have occurred mainly for the purpose to be sold or repurchased in a short term and for which there is evidence of a close probable model of short-term profit.

In this category, the Bank also classifies the financial assets that do not meet the SPPI requirement and therefore cannot be classified in the category of financial assets measured at amortized cost or in the category of financial assets at fair value through other comprehensive income.

A financial asset is classified for trading if it is:

- acquired or occurred for the purpose of sale in the near future;
- a part of a portfolio of identified financial instruments that are managed collectively/in a group and for which there is evidence of a recent, factual/real model of trading and realization of short-term profits or
- derivative which is not held for the purposes of risk management or risk protection.

Financial assets and derivatives held for trading in the Balance sheet are presented as Trading assets.

**1. Classification of financial assets and financial liabilities (continues)****1.5 Financial assets at fair value through profit and loss (continues)****1.5.2 Financial assets at fair value through profit and loss designated at initial recognition**

On initial measurement, any financial asset can be designated as a financial asset at fair value through profit and loss, except for unquoted equity instruments and the financial instruments that do not have quoted market prices and whose fair value cannot be measured reliably.

In this category, investments in securities and loans and receivables can be classified, if they meet the following conditions:

- the accounting inconsistencies arising from the measurement and the recognition of assets or related income and expenses on different bases are eliminated or substantially reduced; or
- a group of financial assets are managed and their realization is measured at fair value in accordance with the documented strategies for investments or risk management as well as because the monitoring and reporting to the management staff of the Bank for that group is carried out at fair value.

**1.5.3 Derivative assets held for risk management**

The Bank takes activities for risk protection to reduce exposure to various financial risks, through financial instruments classified as derivatives for risk protection.

The Bank holds instruments whose price depends directly or indirectly on foreign exchange rates.

**1.6 Debt financial assets available for sale**

Debt financial assets available for sale are those debt financial assets held by the Bank for the purpose of collection of contractual cash flows and/or for sale and which, according to the contractual terms of the asset, meet the SPPI requirement (the Bank expects cash flows on certain dates "solely on the basis of payment of principal and interest").

Financial assets available for sale are recognized in the Balance sheet at the date of trading.

The Bank initially recognizes available for sale financial assets at cost value, which equals the fair value plus transaction costs directly related to the acquisition of the asset. Usually the transaction price is treated as fair value of a financial asset.

After initial recognition, the Bank measures the financial assets at their fair value without reducing the transaction costs that may arise during sale or disposal.

Gains or losses arising from the change in the fair value of available for sale debt securities are equal to the difference between the amortized cost and the current fair value of the asset and are recognized directly in equity and reserves, in the line Revaluation reserves. The Bank also has evidence of amortized cost of debt securities classified as available for sale (on the basis of which it allocates and records the interest income in certain accounting periods) and the fair value. When selling these assets, the accumulated amortization related to the asset is appropriately reconciled.

At the time of derecognition of available for sale financial assets, the cumulative gain or loss, previously recognized in the equity, is derecognized from the equity and is recognized in the Income statement. Interest income calculated by applying the effective interest rate method and foreign exchange gains and losses from assets classified as available for sale, as well as impairment/impairment losses, are recognized in the Income statement for the current year.

The current bid price is used to determine the fair value of the financial assets quoted on an active market.

The balance on the impairment accounts for the investments in debt securities available for sale, if any, the Bank presents in the equity and reserves within the line Revaluation reserve for assets available for sale and not as part of the Assets.



**1. Classification of financial assets and financial liabilities (continues)****1.6 Debt financial assets available for sale (continues)**

The Bank derecognizes debt financial assets available for sale when the contract rights for acquisition of cash flows from financial assets expire or when the Bank has transferred the cash flows rights from the asset with a transaction in which all the risks and rewards of ownership of the financial asset are transferred to another.

**1.7 Investments in equity instruments available for sale**

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

The Bank recognizes these equity securities as financial assets available for sale in the Balance sheet on the date of trading.

The equity financial assets are classified and measured at fair value (they do not have contractual cash flows based on principal and interest, i.e. they are not subject to the requirements of the SPPI). This decision in the Bank is adopted for an individual instrument, only at initial recognition of the instrument and reclassification is not allowed.

The equity instruments which are not traded, the Bank has chosen to classify as financial assets measured at fair value through other comprehensive income. The changes in the fair value (realized and unrealized/calculated) are recognized in the Revaluation reserves. At derecognition of equity instruments, the amounts recognized in the Revaluation reserves are reclassified to another category of equity i.e. Retained earnings/Accumulated losses but can never be recognized in the Income statement.

For investments in equity instruments of certain specific institutions, whose ownership is determined by law and/or is related to the possibility of using the services of these institutions, if there is no active market it is considered that their cost value reflects their fair value.

For investments in equity instruments, impairment is not calculated.

Foreign exchange gains and losses on equity instruments classified as available for sale are recognized in Other comprehensive income. Dividends arising from equity investments classified as available for sale are recognized in the Income statement when the entity's right to receive payment is determined.

**1.8 Financial assets held to maturity**

In the category financial assets held to maturity are included debt instruments managed by the Bank in order to collect the contractual cash flows and which, according to the contractual terms of the asset, meet the requirements of the SPPI.

The Bank recognizes them as financial assets in the Balance sheet at the date of trading.

The initial recognition of held to maturity financial assets is carried at their cost value, which is the fair value of the consideration given including the transaction costs directly related to the acquisition of the asset.

Investments held to maturity are subsequently measured at amortized cost using the effective interest rate method.

Profit or losses from subsequent measurement are recognized in Income statement only when assets are derecognized or impaired, as well as through the depreciation process.

**1. Classification of financial assets and financial liabilities (continues)**
**1.9 Intangible assets**

Initially, intangible assets acquired by the Bank are stated at cost and are subsequently measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent expenses are capitalized only when it is probable that increase of the future economic benefits associated with the asset will generate inflow to the Bank and they can be reliably measured. All other expenses are recognized in the Income statement in the period when they occurred.

Depreciation is recognized in the Income statement by writing off the cost of the asset over its useful life. Intangible assets are depreciated from the date they are available for use by applying the straight-line method.

The useful life is as follows:

	<b>2021</b>	<b>2020</b>
software	4-10 years	4-10 years
patents and licenses	3 -10 years	3 -10 years
other	5 years	5 years

Useful life of the asset and the depreciation method is reviewed once a year, at the end of the financial year.

**1.10 Property and equipment**

Property consists of land and buildings. All property and equipment are stated at cost decreased for depreciation and accumulated impairment losses, if any.

Cost value includes costs directly related to the acquisition of the asset.

Subsequent expenses are included in the cost of the asset or are stated as a separate asset only when it is probable that the future economic benefits associated with the asset will generate inflow to the Bank and they can be reliably measured. All other repairs and maintenance of property and equipment are recognized in the Income statement in the period when they occurred.

Depreciation of property and equipment is calculated using the straight-line basis method to allocate their cost value to the remaining value over their useful life. Property and equipment are depreciated from the date they are available for use. Land and arts are not depreciated.

The useful life of the assets is as follows:

	<b>2021</b>	<b>2020</b>
buildings	40 years	40 years
furniture and equipment	4-10 years	4-10 years

At each Balance sheet date, the Bank reviews the residual value of the assets and the useful life of the assets and adjusts them, if necessary.

Assets that are subject to depreciation are revised for impairment when events and changes show that the carrying amount cannot be recovered. If the carrying amount of an asset is higher than the recoverable amount, then the carrying amount of the asset is reduced to the recoverable amount. The recoverable amount represents the higher amount of the net selling price of the asset and its useful value.

Gains and losses on disposal are determined as the difference between the net inflows from sale and the carrying amount.

In case of a conversion of a foreclosed asset in an asset that serves the Bank in its operation, the value at which the asset is recognized shall be the lower between the last valid estimate made by an authorized valuator for the foreclosed asset being transferred in property and the initial carrying amount of the asset at the foreclosure date.

**1. Classification of financial assets and financial liabilities (continues)****1.11 Leases**

The Bank uses operational leases.

Operational lease is a lease which is not a financial lease, i.e., when all risks and rewards inherent to ownership are not transferred.

The total payments from the operational leases of the Bank as a lessee during the lease period are stated in the Income statement as lease payments on a straight-line basis over the lease period. The total income from the operational leases of the Bank as a lessor during the lease period is stated in the Income statement as income from leases on a straight-line basis during the lease period.

If at the Bank as a lessor or lessee there are prepaid/received assets for future periods, then they are presented as accruals/deferrals and are recorded as costs/incomes in the period to which they refer.

When an operational lease is terminated before the lease period expires, any payment that should be paid to the lessor as a penalty is recognized as an expense in the period in which the termination occurred.

**1.12 Foreclosed assets**

The category of foreclosed assets includes land, buildings, equipment and other values that are received as an exchange for collection of uncollected receivables.

Assets acquired are recognized at the moment of acquisition of the legal basis for registering the property, i.e. when the following criteria are met: the loan or other receivable (balance and off-balance) is legally considered to be settled at the time of the acquisition of the asset pledged as collateral for that loan or other receivables, thus the criteria for derecognition of the loan/receivables are met; all rights and risks arising from the foreclosed asset are transferred to the Bank; the foreclosed asset will create future economic benefits that will generate an inflow for the Bank and can reliably measure its cost.

Assets acquired on the basis of uncollected receivables are initially recognized at their initial carrying amount, i.e. at lower value from: the cost value (the carrying amount) of the loan before the impairment on the day of acquisition of the asset, i.e. the value stated in the act adopted by the competent authority from which arises the legal basis for acquiring the property and the estimated (fair) value decreased for expected sales costs (notary fees, taxes, etc.), that will be paid by the Bank.

At the acquisition date, the Bank is required to provide an estimate of the market value of the foreclosed asset that is valid at the acquisition date of the asset and in the Balance sheet to present impairment of at least 20% of the initial carrying amount of the foreclosed asset. If the amount of the closed impairment/provision is greater than the impairment that is recorded at the acquisition date, the Bank should recognize this difference as revaluation reserve, which is part of the Bank's additional capital.

If the relevant receivable settled by foreclosure of securities and shares was previously impaired, the impairment (impairment loss) should be released through the Income statement.

The part of the receivables that is not collected by the foreclosure of the asset can be written off by the Bank.

Foreclosed assets (excluding foreclosed securities and shares) are subsequently measured at the lower value from the carrying amount and the estimated value decreased by the sales costs. At least once in a period of twelve months, the Bank is obligated to provide an estimate of the value of the foreclosed assets and in the Income statement to present a loss for impairment of assets equal to at least the larger amount of:

- 1) negative difference between the estimated value and the net value of the foreclosed asset;
- 2) 20% of the net value of the foreclosed asset.

**1. Classification of financial assets and financial liabilities (continues)****1.12 Foreclosed assets (continues)**

In the period between two estimates of the market value of the foreclosed asset, the Bank recognizes in the Income statement an additional amount of impairment loss equal to the negative difference between the net value and the amount of the announced reduced selling price of the foreclosed asset.

The acquired securities and shares are subsequently measured at the lower value of the carrying amount and the fair value decreased by the sales costs.

At least once in a period of twelve months, the Bank is required to reassess the value of the foreclosed securities and shares, and if this value is less than the carrying amount less impairment recognized in the past periods, the Bank is obligated to present loss allowances/allowance for impairment in the amount of the difference between the two values.

When evaluating, the Bank acts in accordance with the "Decision on the accounting and regulatory treatment of foreclosed assets" and for those assets it will not sell within the deadlines specified in this Decision (within 5 years), the net asset value will be zero.

Foreclosed assets and the amount of impairment are derecognized upon sale when they are permanently withdrawn from use or in case of conversion into fixed assets. The realized surplus over the carrying amount at sale is recognized as income in the Income statement in the line Other operating income and the realized lower amount of the carrying amount at sale is recognized as an expense in the Income statement in the line Other operating expenses.

At sale the Bank will also derecognize the revaluation reserve for the foreclosed asset by release of the impairment for other non-financial assets in the Income statement, as well as in case of excluding the revaluation reserve from the additional capital of the Bank only for the amount of the profit after taxation according to the Decision of the Shareholders Assembly of the Bank for redistribution of reserves or retained undistributed profit.

**1.13 Non-current assets held for sale and disposal group**

The Bank classifies in this category all non-current assets that are held for alienation (by selling or otherwise), that is, when their carrying amount is reimbursed through sales rather than through continuous use for own or administrative purposes.

Assets are recognized as held for sale assets and a disposal group and assets classified as held for distribution to the holders at the time they become available for immediate sale, i.e. sales expected to be made within a period of one year from the date of classification and when its sales must be highly probable.

The non-current asset classified as held for sale i.e. classified as held for distribution to the owners, is initially measured at the lower value of its carrying value and the fair value decreased for expected sales costs which will be paid by the Bank.

The Bank recognizes impairment loss in the Income statement for any initial or subsequent decrease in the asset's value to the fair value less sale costs.

**1.14 Other assets**

This group of assets contains: stock of materials and small inventory, receivables from debtors, prepaid expenses, receivables from employee, advances, assets for other purposes, receivables on behalf of others, receivables for fees and commissions, receivables on card operations without a limit and other receivables that are not shown in any other position of the assets in the Balance sheet.

Short-term receivables with no stated interest rates are usually measured according to the original invoice amount unless the effect of imputed interest would be significant.

**1. Classification of financial assets and financial liabilities (continues)****1.14 Other assets (continues)**

Assets acquired without a purchase should be recognized at their fair value, unless the transaction is without a commercial basis, or the fair value of the asset (received or granted) cannot be reliably measured. In that case, assets are recognized at cost.

Subsequently, the asset is measured at its lower, carrying amount or the net realizable value. The net realizable value is equal to the estimated selling price minus the estimated cost of completion, repairs and estimated costs necessary to make the sale.

Small inventory are assets with useful life of less than 1 year and whose individual purchase cost is less than 500 euros. They are items with small values and items that are not related to a certain item of property, plant and equipment.

Stock of materials and small inventory are recognized at cost. The small inventory is written off completely when put into operation, unless otherwise stated in the Decision.

Accrued costs for future periods are expressed as expense accruals and are calculated as costs of the period to which they refer, on the basis of an appropriate accounting document. Such costs are: paid insurance premiums, paid rentals, subscriptions to magazines and official newsletters, etc.

Incomes that relate to the current accounting period that are due for collection in the future period are expressed as income accruals. Such incomes are undue accrued incomes, except for undue interest income.

**1.15 Provisions**

Provisions are recognized in the Balance sheet when the Bank, as a result of a past event, has a present legal or constructive obligation that can be reliably measured, and it is probable that there will be a future outflow from the Bank for settling the obligation. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific for the liability.

The Bank recognizes provisions for litigation when there is a risk of loss due to the occurrence of costs related to the fulfilment of obligations that the Bank based on (for it) a negative court decision must fulfil.

Provisions for litigation are used to cover the costs of litigation for which they have been recognized.

Provisions for litigation (legal risk) are abolished after the legal completion of the litigation against the Bank.

If the Bank has an unfavorable agreement, the present value of the liability under the contract should be recognized as a provision. An unfavorable agreement is one in which the unavoidable costs of meeting the obligations under the contract, exceed the economic benefits that are expected.

**1.16 Provisions for pensions and other employee benefits****1.16.1 Plans for defined contributions**

The Bank pays contributions to the pension funds in accordance with the requirements of the legislation. The contributions determined on the basis of the salaries of employees are paid to the pension funds, which are responsible for the payment of pensions. The Bank has no additional obligation to pay based on these plans. Payments of contributions to defined contribution plans are recognized as an expense in the Income statement when they are accrued.

**1.16.2 Short-term employee benefits**

Short-term employee benefits are measured on an undiscounted basis and are recognized when the relevant service is received.

**1. Classification of financial assets and financial liabilities (continues)****1.16 Provisions for pensions and other employee benefits (continues)****1.16.2 Short-term employee benefits (continues)**

The Bank recognizes a liability for the amount that is expected to be paid as a bonus or as a share of the profits and if the Bank has a present legal or constructive obligation to make such payments as a result of services rendered in the past period and if the liability can be reliably estimated.

**1.16.3 Other long-term employee benefits**

The net liability of the Bank in respect of long-term employee benefits, except for the retirement plans, is the amount of future benefits that the employees earned in return for their service in the current and the past period, where these benefits are discounted to determine their net present value, thus the discounted amount is shown as interest expense. Other long-term employee benefits include cost for the period for jubilee awards and retirement benefits. Actuarial profit or losses arising as a result of a change in actuarial assumptions (demographic, financial, and experiential) for severance pay are recognized as revaluation reserves in the Other comprehensive income. Actuarial profit or losses on jubilee awards are recognized as profit or loss in the Income statement when they occurred.

**1.17 Current tax assets/liabilities**

Current tax assets/liabilities are the profit or loss tax assets/liabilities determined by the tax balance of the Bank for the current financial period.

In accordance with Profit Tax Law, the Bank calculates profit tax on gross profits determined as the difference between total incomes and total expenses determined in accordance with the accounting regulations and accounting standards increased for non-deductible expenses and less reported revenues for tax purposes and decreased by the amount of realized investments from the profit from the previous year and dividends realized with participation in the capital of another taxpayer if they are taxed. The calculated income tax is reduced by the amount of donated funds to sports entities, but up to 50% of the calculated tax.

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

**1.18 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, obligated 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 shall classify its financial liabilities at initial recognition in one of the following categories:

- financial liabilities measured at fair value through profit and loss or
- financial liabilities measured at amortized cost.

The Bank measures its financial liabilities at amortized cost.

**1.18.1 Deposits, borrowings, subordinated liabilities and issued securities**

Deposits, borrowings, subordinated liabilities and issued securities are the main source for financing the activities of the Bank.

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

**1. Classification of financial assets and financial liabilities (continues)****1.18 Financial liabilities (continues)****1.18.1 Deposits, borrowings, subordinated liabilities and issued securities (continues)**

The Bank initially recognizes the deposits, borrowings, subordinated liabilities and issued securities on the date when they incurred.

Deposits, borrowings, subordinated liabilities and issued securities are initially measured at cost, which is equal to their fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition, less the repayment of principal, reduced or increased for the accumulated amortization of each difference between the initial amount and the amount at the maturity date.

The Bank derecognizes the financial liability (or part of the financial liability) only if the liability expires, when the liability specified in the agreement is settled, canceled or expired.

**1.19 Other liabilities**

Other liabilities include: liabilities for commissions in denars and foreign currency, gross salaries and other liabilities to employees, dividend payables, liabilities towards suppliers, liabilities under given payment instruments, liabilities on behalf of others, received advances, accrued deferred liabilities, deferred income and other liabilities that are not reported in any other liability position of the Balance sheet.

Other liabilities are recorded at nominal value based on an appropriate accounting document (invoice, contract, calculation) in accordance with the Bank's regulations and decisions.

Cash inflows that are not recognized as income in the current period are deferred for the future period and are recorded as accruals. When incomes are earned, then the accruals are closed, and income is approved.

The costs for which it can be reliably determined that they refer to the current accounting period, and are an obligation in the future period, are recorded as accruals.

**1.20 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 fiduciary activities are generally recognised in the Income statement when the service has been provided.

**1.21 Off-balance sheet evidence**

The Bank keeps an off-balance sheet evidence of transactions performed that at the moment do not meet the recognition criteria as an asset or liability and which can generate future inflows and outflows of assets and which are a source of information about the operations, for determining the risk of operations and possible future obligations.

This evidence includes the following items: issued uncovered financial and service guarantees, uncovered letters of credit, acceptances, irrevocable loan commitments, unused portion of approved framework credits, unused credit card limits, unused overdrafts on current accounts, and other forms of guarantee on which basis the receivables and payables by the Bank may be incurred, as well as other accounting evidence that do not present a special risk for the Bank (records of written off receivables, covered letters of credit, covered guarantees, etc.).

The Bank keeps off-balance sheet evidence also for potential assets and liabilities for derivatives held for risk management, i.e. contracts subject to change in the exchange rate.

The off-balance sheet evidence is recorded on the day of the event.

**1. Classification of financial assets and financial liabilities (continues)****1.21 Off-balance sheet evidence (continues)****1.21.1 Financial guarantee agreements**

Financial guarantee contracts are contracts that require the issuer to make special payments in order to compensate the guarantor for the loss to which it is exposed because the debtor has not settled the payment obligation on time. Such financial guarantees are given to banks, financial institutions and other institutions, and in favor of customers in order to secure loans, overdraft, import guarantee and other banking instruments.

Financial guarantees are initially recognized at fair value on the date when guarantee was issued, which is normally evidenced by the fees received. After initial recognition, the Bank's liabilities are measured at initial value decreased by the depreciation that is calculated in order to recognize in the Income statement the income from a commission that is received straight-line for the period of validity of the guarantee.

**1.22 Equity**

The Bank's equity consists of:

- share capital equals to the nominal value of all shares (subscribed and paid-up capital);
- increase of capital on the basis of the realized difference between the nominal value of the shares and the amounts for which they are sold (share premiums);
- increase of capital on the basis of allocated revaluation reserve (evidenced distribution of revaluation reserve from previous years) and
- retained earnings/accumulated losses from previous years.

The share capital of the Bank consists of ordinary shares. Ordinary shares have a nominal value of 1,000 denars per share. All issued shares are fully paid.

**1.23 Reserves**

The Bank's reserves consist of legal and statutory reserve, revaluation reserve and other reserves.

The Bank's legal and statutory reserve is stated at nominal value with a distribution from the net profit, portion for the legal reserves, and a portion for the statutory reserves and for other reserves.

The reserve fund of the Bank is formed by the distribution of the net profit in the amount of the determined percentage (5%) in accordance with the Bank's Statute and the Company Law.

The Bank has the obligation to allocate part of the profit to the reserve fund until the fund reaches an amount of one tenth of the share capital. As long as it does not reach that amount, the reserve fund can be used exclusively for covering losses.

The revaluation reserve records the gains and losses arising from changes in the fair value of available for sale assets, resulting in an increase or decrease of equity (other than profit and losses from exchange differences on debt securities which are recognized in the Income statement).

When the decrease in the value of the available for sale financial asset is recognized directly in the revaluation reserve and when there is objective evidence that the asset is impaired, the cumulative loss should be eliminated from equity and recognized in the Income statement.

At derecognition of available for sale financial assets (sale, collection and other ways of disposal), cumulative profit/losses from changes in fair value are derecognized from revaluation reserves and are recognized in the Income statement.

At derecognition of equity financial assets available for sale, cumulative profit/losses from changes in fair value are derecognized from revaluation reserves and are recognized in Retained earnings/(Accumulated losses).

Revaluation reserve is also recorded in the case of foreclosure of assets, i.e. when closing the amount of the impairment/provision that the Bank has recorded off from the Balance sheet as a result of the closing of the outstanding receivables, whereby the difference from the closed



**1. Classification of financial assets and financial liabilities (continues)****1.23 Reserves (continues)**

impairment/provision and at least 20% of the initial carrying amount of assets is recorded as revaluation reserve.

The derecognition of the revaluation reserve is carried out on sale of the foreclosed asset, when it is permanently withdrawn from use, in case of conversion of the foreclosed asset into fixed assets or exclusion of the revaluation reserve from the additional capital of the Bank only for the amount of the profit after taxation according to the Decision of the Shareholders Assembly of the Bank for redistribution of reserves or retained undistributed profit.

The Bank also recognizes revaluation reserves when measuring the present value of the defined benefit obligations in accordance with IAS 19.

Revaluation reserves records changes in actuarial assumptions about severance pay as a difference from the previous actuarial calculation and a 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, and other.

**1.24 Retained Earnings / Accumulated Losses**

Profit or loss for the current year is determined in accordance with the legal regulations. Realized net profit of the current year is transferred and allocated next year in accordance with the decision made by the Shareholders Assembly of the Bank.

Part of the retained profit of the Bank presents reinvested profit which includes profit realized with the annual account of the previous year, which with allocation is designed for investments and next year is invested in tangible and intangible assets. The profit designed for investments in tangible and intangible assets in accordance with a Decision made by the Shareholders Assembly is limited for allocation in form of dividends for the Bank's shareholders.

Also, at derecognition of equity securities, amounts presented as revaluation reserves are transferred in Retained earnings/(Accumulated losses).

**1.25 Earnings per share**

The Bank presents the earnings per share in the basic structure of the Income statement, if the regular shares are subject to public market trade or if it is in a process of issuing regular shares on public markets.

The Bank presents the basic and diluted earnings per share. The basic earnings per share is part of the profit or loss that belongs to the shareholders of regular shares for the effects of all regular shares in circulation during the period.

The basic earnings per share is calculated when net profit or loss which belongs to the holders of regular shares is divided with the weighted average number of regular shares in circulation during the period. The weighted average number of shares in circulation during the period is calculated when the number of shares in circulation at the beginning of the period is corrected by the number of shares issued or purchased during the period multiplied by period ponder (number of days in which the concrete shares are in circulation – compared with the total number of days in the year). Diluted earnings per shares in the Bank is identical with the basic earnings per share, because there is not issued potential ordinary shares for which effect corrections are made on net profit that belongs to holders of ordinary shares.

**1.26 Interest income and expenses**

The income and expenses based on interest for all interest-bearing financial instruments except those classified for trading are recognized as Interest Income and Interest expense in the Income statement using the method of effective interest rate. The method of effective interest rate is a method for measurement of financial assets and liabilities according to the amortized cost and

**1. Classification of financial assets and financial liabilities (continues)****1.26 Interest income and expenses (continues)**

allocation of income and expenses from interest in the period of expected maturity of financial instruments.

In Interest income/expense are included the expenses from interest determined with actuarial calculation due to the change in the current value of benefits for employees due to approximation to the date of payment, allowance for impairment and release of allowance for impairment on non-performing assets based on interest, as well as their collection.

**1.27 Fee and commission income**

The fee and commission income mainly consist of financial services performed by the Bank including issuance of guarantees, opening letters of credit, payment transactions in the country and abroad, commissions from transactions with traders, settlement with cards, commissions from custody activities, brokerage commissions which represent commissions from securities trading, commissions for assets management, commissions on loans, commissions on mediation in insurance, commissions from transport of cash, as well as commissions for other services. Fees and commissions are mainly recognized on accrued base, when the service will be performed.

**1.28 Dividend income**

Dividend income is recognized in the Income statement when the right of the Bank to receive the payment is determined and when the income of economic benefits is probable.

**1.29 Net trading income**

Net trading incomes are realized and unrealized changes in the fair value at subsequent measurement, profit or loss at disposal, dividends, income and expenses from interest on assets and liabilities for trading as well as changes in fair value of derivatives for trading.

Net trading income is measured according to the change in fair value of financial assets and liabilities for trading that is the difference between the carrying amount and the fair value on the date of the Balance sheet.

**1.30 Net income from other financial instruments at fair value**

Net income from other financial instruments at fair value are realized and unrealized changes in fair value at subsequent measurement, realized profit or loss at disposal and dividends of:

- derivative assets held for risk management;
- derivative liabilities held for risk management;
- financial assets determined at fair value through profit and loss; and
- financial liabilities determined at fair value through profit and loss at initial recognition.

Change in fair value is the difference between carrying amount (value at cost of the asset or liability acquired in the reporting period or their last fair value) and the fair value on the Balance sheet date or the sale price on the date of sale.

Income/expenses from interest of financial assets/liabilities determined at fair value through profit and loss at initial recognition and derivatives held for risk management are recognized in Interest income/expenses.

**1.31 Net income and expenses from exchange differences**

Net income and expenses from exchange differences include realized and unrealized exchange differences arising from:

- settlement of transactions in foreign currency of monetary and non-monetary items during the entire financial year; and
- exchange rates adjustments of monetary items denominated in foreign currency on the date of the Balance sheet.

**1. Classification of financial assets and financial liabilities (continues)****1.32 Other operating income**

This group includes:

- net income from investments in subsidiaries and associate companies;
- gains from sale of debt financial assets available for sale;
- income from dividends from equity securities available for sale;
- gains from disposal of property and equipment and intangible assets which is the difference between income from sale and their net carrying value on the date of disposal;
- gains from sale of foreclosed assets;
- income from collected previously written off loans and receivables;
- income from operating leases;
- net release from provisions by individual type of provision (for potential liabilities for litigations and other provisions); and
- other income.

The income is recognized and measured in accordance with the appropriate standard for the certain asset, based on which income was realized.

**1.33 Loss allowances/allowances for impairment of financial assets and provisions for off-balance sheet exposure**

The Bank regularly assesses and recognizes the allowance for impairment and provisions for expected credit losses of financial assets which are measured at cost and of the financial assets which are measured at fair value through other comprehensive income, as well as on the off-balance sheet exposure to credit risk.

Loss allowance is the difference between the carrying value of the asset and the current value of the estimated future cash flows discounted with the original effective interest rate of the financial asset:

- loans and advances to banks and other customers;
- financial assets held to maturity;
- financial assets available for sale, and
- off-balance sheet exposures.

When the reasons for allowance for impairment (loss allowances) will disappear, the previously recognized allowance for impairment should be released through the Income statement in the line Impairment on financial assets and provisions for off-balance, net.

Subsequent release of the allowance for impairment is recognized only for the financial assets which are recorded at amortized cost and for the debt securities available for sale.

Allowances for impairment (loss allowances) and provisions are measured and recognized individually.

**1.34 Impairment of non-financial assets**

Impairment of non-financial assets is the difference between the carrying value and the recoverable amount of:

- property and equipment;
- intangible assets;
- foreclosed assets;
- non-current assets held for sale and disposal group; and
- other non-financial assets.

The Bank estimates, on each Balance sheet date, whether there is objective evidence that the non-financial asset or a group of non-financial assets are impaired.

Impairment is recognized at the moment when there is proof that the carrying value is higher than the estimated recoverable amount of the non-financial assets and is recognized in the Income statement as an Impairment of non-financial assets, net.

**1. Classification of financial assets and financial liabilities (continues)****1.34 Impairment of non-financial assets (continues)**

When the reasons for impairment will disappear, the previously recognized impairment should be released through the Income statement in the line Impairment of non-financial assets, net, but not more than the amount of the previously recognized impairment.

Subsequent release of impairment is not recognized for foreclosed assets. Release of impairment is recognized at sale of foreclosed assets or their transfer into fixed assets for the operations of the Bank, as release of impairment of the other non-financial assets.

**1.35 Costs for employees**

The costs for employees consist of:

- short-term benefits for employees (salaries, mandatory contributions for social and health insurance, personal income tax, short-term paid leaves, bonuses, etc.);
- long-term benefits for employees (jubilee awards, retirement benefits, etc.);
- benefits after termination of employment (benefit contributions to plans for defined contributions - payments for contributions in separate fund.

Short-term benefits are recognized at the moment when they occur, when the appropriate service will be provided. The short-term benefits are measured by non-discounted amount which is expected to be paid based on employment contract and are recognized in the Income statement as expenses.

Long-term benefits are measured according to the present value of the liability for defined benefits at the date of Balance sheet, decreased for the fair value of the assets of the plan at the Balance sheet date out of which the liabilities should be settled directly. Each actuarial profit or loss is recognized in the Income statement in the period when they occurred, with exception of the effects from the differences between the previous actuarial presumptions and what really happened and the effects of change in demographic and financial presumptions, discount factor etc., for the part of severance pay which are presented in the Other comprehensive income.

**1.36 Depreciation of intangible assets**

The depreciation of intangible assets is allocated on systematic base during the best assessment of the life of use of the asset. The Bank estimates whether the life of the use of intangible assets is definite or indefinite and if it is definite, the period of use presents its life of use.

The calculation of depreciation starts when the asset becomes available for use and ends when the asset is classified as held for sale or is derecognized. Depreciation continues to be calculated for intangible assets that are out of use. The Bank depreciates all intangible assets separately, grouping in depreciation groups those assets that have the same life of use and the same depreciation method.

Depreciation rates are determined so that the value of intangible assets is allocated into costs in the estimated life of use.

Depreciation is calculated according to the straight-line method and the depreciation cost for each period is recognized as an expense in the Income statement in the line Depreciation.

The depreciation calculation period (residual value and useful life of the asset) and the depreciation method are checked at the end of each financial year, and if a change is identified, it should be recorded as a change in the accounting estimate, prospectively in the current and in the future periods.

**1. Classification of financial assets and financial liabilities (continues)****1.37 Depreciation of tangible assets**

The depreciation of tangible assets is allocated on systemic base during the best assessment of the life of use of the asset. The calculation of depreciation starts when the asset becomes available for use and ends when the asset is classified as held for sale or is derecognized. The depreciation continues to be calculated for tangible assets which are out of use. The Bank depreciates all tangible assets separately, grouping in depreciation groups those assets that have the same life of use and the same depreciation method.

The land has an unlimited useful life and is not depreciated. Art works are not depreciated.

Depreciation rates are determined so that the value of tangible assets is allocated into costs in the estimated period of use.

Depreciation is calculated according to the straight-line method and the depreciation cost for each period is recognized as an expense in the Income statement in the line Depreciation.

The depreciation calculation period (residual value and useful life of the asset) and the depreciation method are checked at the end of each financial year, and if a change is identified, it should be recorded as a change in the accounting estimate, prospectively in the current and in the future periods.

**1.38 Other operating expenses**

Other operating expense include: administrative costs, deposit insurance costs, property and employee insurance, materials and services, lease charges, loss from sale of available for sale financial assets, loss from disposal of property and equipment, loss from disposal of intangible assets, losses from sale of foreclosed assets, expenses for provisions on net basis and other expenses that cannot be categorized in a specific position.

Other operating expenses are recognized and measured in accordance with the appropriate standard for the certain asset, based on which expense was realized.

Other operating expenses are recognized and recorded on the basis of actual costs declared with reliable accounting documents (invoices, contracts, calculations). Also, in this position are reported the foreseen costs based on calculations and forecasts for costs incurred during the reporting period, for which no relevant documentation for the record has been received.

**1.39 Netting of financial assets and liabilities**

Financial assets and liabilities are netted and the net amount is disclosed in the Balance sheet only when the Bank has the legal right to net the recognized amounts and intends to settle the transaction on a net basis or to realize the asset and at the same time settle the obligation.

**1.40 Events after the date of the Balance sheet**

Those events after the date of Balance sheet that give additional information on the financial position of the Bank at the date of Balance sheet (corrective events) are reflected in the financial statements. The subsequent events that do not have the character of corrective events are presented in the relevant note, if they are materially significant.

**1. Classification of financial assets and financial liabilities (continues)****d) Use of assessments and estimates****1.41 Description of variability/uncertainty of accounting assessments**

The financial statements and the financial result of the Bank depend on the accounting policies, assumptions, assessments and judgments of the management that are used for preparation of the financial statements. The Bank makes estimates and assumptions that affect the reporting of the amounts in the assets and liabilities also during the next financial year. Estimates and judgments are continuously evaluated on an ongoing basis and are based on prior experience and other factors, including expected events that are considered probable under the given conditions.

**1.42 Description of significant estimates when applying accounting policies****1.42.1 Loss allowances of loans and receivables**

The Bank reviews the loans and receivables portfolio to assess the impairment on a monthly basis. When determining whether loss allowance has to be recognized in the Income statement, the Bank makes a judgment whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flow from a loan portfolio before the decrease can be identified by individual loan in that portfolio. This evidence may include observable data indicating that there is an unfavorable change in the repayment of receivables in the Bank, or in the national or local economic conditions that relate to non-performance of the liabilities for the assets in the Bank.

The management uses experience-based estimates, historically recorded losses of assets exposed to credit risk, and objective evidence of impairment similar to those in the portfolio when the future cash flow is projected. The methodology and assumptions used to estimate the amount and timing of future cash flows are reviewed for revision on a regular basis in order to reduce any mismatch between the estimated losses and the actual losses incurred.

During 2020, the Bank approved moratoria on liabilities to legal entities and individuals. The moratoria to individuals was approved on a portfolio basis, while a portfolio approach and access to expert analysis were used for legal entities.

The first moratoria ended on 30.09.2020, and the clients who met the defined conditions were granted a second moratoria valid from 01.10.2020 to 31.03.2021. Several legal entities were granted a moratorium valid until 31.10.2021 on the basis of an individual assessment. During the moratoria, the days of delay were frozen, but exiting the moratoria they continued to be counted and in the calculated amount of impairment and provision, the increased delay and the transition to non-performing accounts were adequately effected.

**1.42.2 Allowance for impairment for foreclosed assets**

The process for calculating the loss allowance requires important and complex assumptions to be made in relation to the planned sales period of the foreclosed assets, their estimated net sale values and the corresponding discount rate in order to reduce the net present value of the expected cash flows from sale of foreclosed assets.

The Bank's management expects that the foreclosed assets will be sold within a reasonable time frame without losses. Otherwise, adjustments will be made if market activity indicates that such adjustments are appropriate.

**1. Classification of financial assets and financial liabilities (continues)****1.42 Description of significant estimates when applying accounting policies (continues)****1.42.3 Actuarial calculation**

The present value of long-term benefits for pension plans depends on a number of factors that are determined on the basis of an actuarial calculation using assumptions.

The main actuarial assumptions included in the calculation of employee benefits are the following:

- discount factor of 2.2% (2020: 3%);
- number of employees eligible to use the right of benefits;
- future salary increases, considering the general inflation index of salaries, promotions, as well as salary increases based on past experience.

The Bank uses services from an independent qualified actuary when valuing the current value of long-term benefits for pension plans.

**e) Changes in accounting policies, accounting estimates and correction of errors**

Errors are omissions and errors from an earlier period as a result of abuse or omission in the use of information such as mathematical errors, overlooks or misinterpretation of facts and frauds and are retroactively corrected in the financial statements.

Change in accounting estimates is a correction of the carrying amount of the asset or liability as a result of an assessment of the current status of an asset or liability or of the expected future uses and obligations of the asset or liability. This is the result of new information or new situations and accordingly there is no error correction. The effects of a change in an accounting estimate should be prospectively recognized in the Income statement.

Any change in the useful life, residual value or in the depreciation method of an item of property and equipment or intangible asset, is considered as a change in the accounting estimate.

Changes in accounting policies are changes that are required in accordance with the NBRNM methodology or if the change has led to a reliable and more realistic presentation of events or transactions in the financial statements.

**f) Compliance with legislation**

In 2021, in a global coronavirus-associated COVID-19 pandemic, the Bank based its work on compliance with the existing regulations, using regular control of the compliance with the regulations and continuous adjustment of the Bank's operations with the new legal regulations and bylaws.

The Department for compliance with the regulations and information security performs identification and monitoring of the risks from the non-compliance of the Bank's operations with the regulations, informs the Supervisory Board and the Management Board of identified incompatibilities, as well as the activities undertaken for their overcoming, assesses the compliance of the new products and systems in the Bank, performs training for all employees and assesses the potential impact of changes in the regulations on the Bank's operations.

In that direction, in 2021 the Department performed compliance of the Bank's operations with the new laws and bylaws. It prepared analysis of the new or amendments to the existing legal regulations that are of importance for the Bank's operations and analysis of the Decisions adopted by the NBRNM. According to the prepared analyses of the changes, guidelines and recommendations for compliance of the Bank in separate segments were given and it was appropriately controlled and coordinated.

In accordance with the decisions adopted by the NBRNM, the Department for compliance with the regulations and information security, prepared and participated in the revision of the relevant internal acts that as a mandatory obligation are determined by the bylaw of the NBRNM, which, after the adoption by the Management Board i.e. the Supervisory Board of the Bank, are applied by all employees of the Bank. Through the work of the Department and its activities, the Bank contributes for improving the communication between the divisions and increasing the awareness of

**1. Classification of financial assets and financial liabilities (continues)****f) Compliance with legislation (continues)**

the employees of the Bank to respect the work ethic, integrity and monitoring and implementation of the laws in the legal regulations in the daily professional work.

The Bank has established internal control systems and mechanisms for identifying, monitoring and managing risks, maintaining an adequate level of liquidity, has established a system of corporate governance, which enables timely identification, monitoring and control of the risks it is exposed to.

As at 31.12.2021, the Bank is in accordance with the exposure limits, solvency and capital adequacy and its own assets, the Bank's investments, the liquidity of the Bank and the open foreign currency position determined by the laws and bylaws by the NBRNM, i.e. the Bank is in compliance from material aspect, with the regulation, prescribed by the NBRNM.

**g) Disclosure of risk management**

The quantitative information for each risk is separately given in notes 2.1, 2.2, 2.3.1, 2.3.2, 2.3.3 and 3.

The qualitative information on particular types of risks is given below (note 2).

**2. Disclosures for risk management**

The Bank's activities are exposed to various financial risks and those activities include analysis, assessment, acceptance and management of a certain degree of risk or a combination of risks. Taking risk is the basis of the financial business and operational risks are an inevitable consequence of the operation. Therefore, the Bank's aim is to achieve a certain balance between risk and return on assets and to minimize the potential adverse effects of the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze risks, to determine certain limits and controls, to monitor risks and to comply with limits through reliable and up-to-date information systems. The Bank regularly reviews risk management policies and systems, in line with changes in the market, products and the appearance of best solutions.

Risk management is carried out by the Risk, Evaluation and Control Division of the Bank, applying policies approved by the Supervisory Board. The Supervisory Board provides, in written form, principles for overall risk management and policies covering specific areas such as credit risk, currency risk, interest rate risk and liquidity risk. Furthermore, the Internal Audit Sector is responsible for independent supervision of risk management and control.

The most important types of risk to which the Bank is exposed are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate risk and other market risks.

**2.1 Credit risk**

The Bank is exposed to credit risk when a client causes financial loss from defaulting on its obligation to the Bank. Credit risk is the most significant risk in the Bank's operations, and management therefore carefully considers the exposure to credit risk. Exposure to credit risk is primarily due to credit activities, i.e. loans and receivables, and investment activities in debt instruments and other securities in the Bank's assets. Also, credit risk exists for off-balance sheet financial instruments. The management and control of credit risk is centralized in the Risk Management Department within the Risk, Evaluation and Control Division, which is responsible to the Management Board.

**2.1.1 Measurement of credit risk**

In 2021, the Bank made a classification and determined allowance for impairment and provisions on an individual basis for all credit exposures.



**2. Disclosures for risk management (continues)****2.1 Credit risk (continues)****2.1.1 Measurement of credit risk (continues)****2.1.1.1 Loans and receivables**

Measurement of the credit risk associated with loans and receivables issued to customers and banks, is performed with:

- classification of the credit exposure according to:
  - the creditworthiness of the client/financial project and
  - regularity in meeting obligations;
- determination of impairment and provisions.

The classification system is developed internally and combines the financial analysis with the ratings of the loan officer and confirmation where possible by comparing additional external data. The Bank's clients are classified into five risk categories. The methodology for credit exposure is regularly reviewed and upgraded, if necessary.

Classification system of the Bank

**Categories of the Bank**

A

B

C

D

E

The changes in the credit exposure classification requirements in an appropriate risk category, according to the Decision on Methodology for credit risk management, refer primarily to: 1) permitted exceptions of delay up to twice in the last six months, 2) criteria for classification of restructured claims according to the stage in which they are found, as well as 3) define new conditions for fully impairment of the claims (claims that have recognized collateral and are overdue 3 years should be fully impaired, and also claims that are overdue 2 years and that are without recognized collateral).

The criterion for classification of financial assets or loan commitments in risk categories A, B, C, D and E is as follows:

A risk category "A" are classified:

- receivables from the European Central Bank, as well as from the central governments and central banks of the countries whose receivables, in accordance with the methodology for determining the capital adequacy, have a risk weight of 0%;
- the portion of the credit exposure that is secured with first class security instruments, if the instrument is activated within 60 days of the maturity of that exposure;
- the financial statements and cash flows of the client allow its continuous operation and possibility for settling the current and future obligations to the Bank;
- credit exposure which obligations are executed with a delay of up to 31 days or with an exception of up to 60 days, if the delay is at most twice in the interval of 32 to 60 days in the previous period of six months;
- credit exposure that is in the last year of the probation period.

**2. Disclosures for risk management (continues)****2.1 Credit risk (continues)****2.1.1 Measurement of credit risk (continues)**

A risk category "B" shall be classified:

- credit exposure to the client/project for which because of a financial weaknesses, difficulties are expected in settlement of the obligations;
- credit exposures that are usually performed with a delay of up to 60 days, or with an exception of 90 days if the delay is at most twice in the interval from 61 to 90 days in the previous period of six months;
- credit exposure that has treatment as restructured credit exposure;
- credit exposure that at least one year has no treatment of non-performing credit exposure.

The risk category "C" shall be classified:

- credit exposure to the client/project where the client's cash inflows are inadequate for regular settlement of obligations;
- there is an inadequate maturity structure of the funding sources of client/project and the inflows;
- credit exposure to a client/project whose debt is high, compared to equity and/or a client who has significant debt to creditors;
- credit exposure to the client/project for which the Bank has no current and updated information for assessment of creditworthiness of the client or the quality of the project;
- credit exposure is restructured and at least one more criteria in this risk category is met;
- credit exposure that has restructuring status and has one more criteria from this category of risk;
- credit exposure which obligations are performed with a delay of up to 120 days, or with an exception of 180 days, if the delay is at most twice in the interval from 121 to 180 days in the previous period of six months;
- credit exposure to the client - a non-financial entity which has claims based on a financial credit from a person with a credit rating equal to or lower than CCC + (in accordance with the ratings of Standard & Poor's Ratings Services or Fitch Rating Agency) or Caa1 (according to Moody's ratings);
- credit exposure to the client - a non-financial entity which has claims based on a financial credit from a person with a credit rating higher than the rating in line 7 from this category, but based in a country whose credit rating is equal to or lower than CCC+ (in accordance with the ratings of Standard & Poor's Ratings Services or Fitch Rating Agency) or Caa1 (according to Moody's ratings) or
- credit exposure to the client - a non-financial entity that has claims based on a financial credit from a person for which a credit rating has not been established, but is based in a country whose credit rating is equal to or lower than B- (according to the ratings of Standard & Poor's Ratings Services or Fitch Rating Agency) or B3 (according to Moody's ratings) or is based in a country for which no credit rating has been established.

The Bank may not classify the credit exposure to the client referred to in lines 6 and 7 in the risk category "C" if:

- the exposure is based on a customs guarantee or a guarantee for participation in a tender;
- the financial loan is less than 31,000,000 MKD (if the financial loan is given in foreign currency, the denar equivalent of the given loan is taken into account) or
- the financial loan is equal to or greater than 31,000,000 MKD, and the exposure of the Bank is greater than the amount of the financial loan and the Bank has made an allowance for impairment, i.e. it has made a provisions, at least in the amount above 20% of the amount of the financial loan, where the credit exposure or the client meets the criteria for classification in another risk category.

The risk category "D" shall be classified as follows:

- credit exposure to the client that is not liquid;
- restructured non-performing credit exposure for which the client is overdue more than 60 days or for which new restructuring is approved;

**2. Disclosures for risk management (continues)****2.1 Credit risk (continues)****2.1.1 Measurement of credit risk (continues)**

- credit exposure which obligations are fulfilled with a delay of up to 240 days, or with an exception of up to 300 days, if the delay is at most twice in the interval of 241 to 300 days in the previous period of six months;
- credit exposure to the client (including governments and central banks) has a credit rating equal to or lower than CCC+ (in accordance with the ratings of Standard & Poor's Ratings Services or Fitch Rating Agency) or Caa1 (according to Moody's ratings);
- credit exposure to a client with credit rating higher than rating in the line 4 of this category, but is based in a country whose credit rating is equal to or lower than CCC + (according to Standard & Poor's or Fitch's) or Caa1 (according to Moody's rating);
- credit exposure to a client without credit rating, but is based in a country whose credit rating is equal to or lower than B- (according to the ratings of Standard & Poor's Ratings Services or Fitch Rating Agency) or B3 (according to Moody's ratings) or is based in a country for which no credit rating has been set.

The Bank may not classify the exposures specified in lines 4, 5 and 6 of the risk category "D" in the case of an off-balance claim based on a customs guarantee or guarantee for participation

in a tender, or if it is an exposure to another bank, based on current accounts in foreign currency abroad.

In the risk category "E" the following is classified:

- credit exposure which obligations are performed with a delay of more than 241 days, i.e. over 600 days delay for credit exposure with recognized collateral;
- a bankruptcy or liquidation procedure has been introduced over the client except in case when there is a plan for reorganization of the client in accordance with the law or
- the client challenges the existence of credit exposure (in a court or out-of-court procedure).

**2.1.1.2 Debt and other securities**

For debt and other securities, in the segment for managing the exposure to credit risk, classifications are used depending on the issuer: NBRNM, Republic of North Macedonia, Kingdom of Spain and Republic of Ireland. Investments in such securities are a way to increase credit quality and at the same time, to maintain available sources of assets to meet funding requirements. Investments are allowed only in liquid securities that have a high credit rating. With the high credit rating, the management of the Bank does not expect the counterparty to fail its obligations. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Balance sheet.

**2.1.2 Policy of limit control and risk mitigation policy**

The Bank manages limits and controls the concentration of credit risks, wherever they are noticed, especially for individual clients and groups, as well as for industrial and geographical risks.

The Bank structures the levels of credit risk that it undertakes by setting limits on the amount of accepted risk in relation to one borrower, or a group of borrowers and in terms of geographical and industrial segmentation. Such risks are monitored continuously and are subject to audits on annual or more frequent level, when necessary. Levels of credit risk limits by product and industrial sector are approved by the Supervisory Board.

Credit risk exposure is also managed through regular analysis of the ability of the borrowers and potential borrowers to meet the obligations for payment of interest and principal and by changing these limits when approving loans where appropriate.

Several other specific control and mitigation measures of credit risk are shown below.

**2. Disclosures for risk management (continues)****2.1 Credit risk (continues)****2.1.2 Policy of limit control and risk mitigation policy (continues)****2.1.2.1 Collateral**

The Bank applies a number of policies and experiences to reduce the credit risk. The most common way is to take a guarantee of the approved assets, which is often applied. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk limitation.

The main types of collateral for loans and advances are:

- cash deposits;
- mortgage on residential property;
- mortgage on business property;
- bank and corporate guarantees;
- financial instruments (debt and equity securities) and
- other acceptable collateral that the Bank defined in the internal acts.

Loans granted to enterprises and households are usually secured, overdrafts and credit cards issued to individuals are secured with bill of exchange in full amount. In order to minimize loan losses, the Bank will request additional collateral from customers as soon as loss allowance for the relevant individual loans and receivables are recorded.

For the purposes of the financial statements (note 22.2B), loans and receivables from other customers secured with bills of exchange are shown as unsecured.

In general, the Bank does not require collateral for loans and advances to banks.

Debt securities, treasury bills and other bills in which the Bank invests, are usually not secured.

**2.1.2.2 Credit liabilities**

The primary purpose of these instruments is to ensure that assets are available at customer's request. Guarantees and letters of credit have the same credit risk as loans and are secured with same collateral as loans.

**2.1.3 Policies for impairments and provisions**

The internal ranking systems described in note 2.1.1 presents the quality of the credit exposure from the approval to full repayment. Impairments and provisions are recognized in the financial statements and present loss that the Bank expects on the basis of objective evidence of impairment.

Internal rankings help the management to determine whether objective evidence of impairment exists, and which are based on the following criteria set by the Bank:

- failure to fulfil the contractual payment of principal or interest;
- difficulties in the borrower's cash flow (e.g. equity ratio, percentage of net sales income);
- breach of the contract and terms of the loan;
- initiation of a bankruptcy procedure;
- reduction of the borrower's competitive position and
- reducing the value of the collateral.

The assessment usually includes the received collateral (including a re-confirmation of its ability to take effect) and the assets received in advance for that individual account.

Impairment losses on loans and other active balance sheet and off-balance sheet positions are carried out in accordance with the regulations prescribed by NBRNM.

**2. Disclosures for risk management (continues)**
**2.1 Credit risk (continues)**
**2.1.3 Policies for impairments and provisions (continues)**

The percentages applied separately for each risk category in 2021 and 2020 are as follows:

<u>Risk Category</u>	<u>Impairment interval</u>
A	from 0,01% to 5%
B	above 5% to 20%
C	above 20% to 45%
D	above 45% to 70%
E	above 70% to 100%

**2.1.4 Maximum exposure to credit risk**

The maximum exposure to credit risk before giving collateral or other credit enhancements (note 2.1) represents a worst-case scenario of exposure to credit risk of the Bank on 31.12.2021 and 31.12.2020, without taking in consideration any received collateral or other credit enhancements that are provided. For the assets in the Balance sheet, the exposure is based on net carrying value as it is presented in the Balance sheet.

For the financial statements (note 2.1 A), the Bank has matched the groups of credit risk (Group 1, 2, 3) from the Methodology of recording and evaluation of the accountings items and for the preparation of the financial statements and the risk categories from the Decision on Methodology for credit risk management, and has reported as follows:

- within the Group 1, the exposures to credit risk classified in the category of risk "A".
- within the Group 2, the exposures to credit risk classified in the risk categories „B“and „C“, that do not have the status of non-performing credit exposure;
- within the Group 3, exposures to credit risk that have the status of non-performing credit exposure.

**2.1.5 Fair value of the assets taken for credit risk protection**

The fair value of the collateral that is shown in note 2.1.B is established by the authorized valuers and it represents a value that is real for the legal owners of the assets.

**2.1.6 Debt instruments, treasury bills and other bills**

The analysis of the debt instruments, government bills and bonds issued by the states according to the type of investment are shown in the notes 18 and 23. The issuers of the securities are the Republic of North Macedonia, NBRNM, Kingdom of Spain and Republic of Ireland. According to the Standard & Poor's Ratings Services, Republic of North Macedonia is ranked with BB- for long-term and B for short-term rating with stable appearance. According to Fitch Rating Agency it is ranked with BB+ for long-term rating for home and foreign currency with a negative outlook and B for short term rating for domestic and foreign currency.

**2.2 Liquidity risk**

The liquidity risk is a risk when the Bank is not able to fulfil its obligations for payment accordingly when they are matured and to replace the assets when they are withdrawn. The consequence of this can be the non-performance of the obligation to pay off the depositors and to fulfil the obligations based on the credits.

**2.2.1 Maturity of financial assets and liabilities**

The note 2.2 represents the flows of monetary inflows and outflows of the financial assets and liabilities of the Bank according to the remaining agreed maturity on the date of Balance sheet. The amounts shown in the note are the contractual undiscounted cash flows.

**2. Disclosures for risk management (continues)****2.2 Liquidity risk (continues)****2.2.1 Maturity of financial assets and liabilities(continues)**

The assets by which all the obligations can be fulfilled are the cash, assets in NBRNM, securities, assets received from collection of loans and advances to banks and loans and advances to other customers.

During 2021, the new Decision on the methodology for liquidity risk management (Official Gazette No. 146/20) entered into force, applicable from 01.01.2021. This decision prescribes the methodology for liquidity risk management, which determines the scope and elements of liquidity risk management.

According to the legislation and internal regulations, the Bank prepares the following liquidity risk management reports on a monthly basis:

- Report on the maturity structure of assets and liabilities at an aggregate level and by significant currency;
- Report on monitoring the concentration of funding sources by major depositors;
- Report on monitoring the concentration of funding sources by instruments, i.e., product;
- Report on the price of funding sources and their maturity;
- Report on the possibility of renewal of the funding sources;
- Report on determining the available unencumbered assets;
- Report on the liquidity coverage rate at aggregate level and by significant currency (LCR) and
- Report on the internal liquidity indicators.

The above stated reports are submitted to the NBRNM within 15 days for the reporting month.

Also, the Bank is obliged to inform NBRNM at least once a year about:

- the amount and basis of the additional cash outflow from this decision;
- any reduction in the creditworthiness of the Bank that is significant from the aspect of each concluded agreement from this decision;
- the products and services from item 49 paragraph 3 of the decision for which is determined that the probability and the amount of the cash outflow are significant for the Bank's operations.

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

On a monthly basis, the Bank applies conservative stress test of liquidity risk on more levels of scenarios and intensities, with basic estimation for outflow on a higher percent of the client deposits, borrowings and payments based on off – balance instruments and limits. The results from the applied stress test scenarios indicate high-liquidity position of the Bank and ability for regulation of the matured obligation at any moment.

Conclusive with 31.12.2021, the Bank realizes liquidity surplus in a combined stress scenario, for a period of 3 months.

Additionally, the Bank has a high level of stability of demand deposits of customers (in Report 2.2 shown in the maturity block up to 1 month).

The Bank, also, can manage the unexpected net outflows of cash, by selling of securities and finding of additional financial sources.

**2. Disclosures for risk management (continues)****2.3 Market risk**

The market risk represents a risk of change of the market price, such as change of the interest rates, price of capital, change of exchange rates and credit margin (with exception of the changes in the relation between the debtor and the creditor) that will influence the Bank's incomes or the value of the financial instruments. The purpose of the managing of the market risk is to control the credit exposure in acceptable frames, to optimization of the risk return.

**2.3.1 Analysis of the sensitivity of the changes of the market risk of the assets and liabilities**

Within the ongoing work, the assets and liabilities of the Bank are exposed to change of the value as a result of the market movements of the following risk factors: the exchange rate, the interest rate, the prices of the securities, the worsening of the credit portfolio of the Bank. According to the historic and the experience data, the Bank prepares extreme stress - test scenarios which point to the effects of change on the capital adequacy, own assets, the assets and liabilities and the Bank's profit and loss. The presumptions and the results from the ongoing effects from the stress - scenarios are shown in the note 2.3.1 A.

According to the Decision for methodology for establishing the capital adequacy, the Bank fulfils the legally prescribed limit of the trading portfolio, thereby there is no obligation for allocation of capital for managing the market risk, thereby does not fulfil the report 2.3.1 B.

**2.3.2 Interest risk**

The Bank is exposed to a risk of the changeability of the interest rates because interest-bearing assets (including investments) and interest-bearing liabilities mature, or their interest rates fluctuate within a different period or within different amounts. In case of assets and liabilities with floating interest rates, the Bank is also exposed to basic risk, which is a difference in the characteristics of re-determining the interest rate on different floating rate indices, such as interest rate on treasury bills from the Central Bank, National reference interest rate, EURIBOR, LIBOR and different types of interest rates.

Risk management activities are aimed at optimizing net interest income, taking into account market interest rates that are consistent with the Bank's business strategies.

Asset and liability risk management activities are carried out in the context of the Bank's interest rate sensitivity. In general, the Bank is sensitive to assets due to the larger amount of interest-sensitive assets relative to interest-sensitive liabilities. The interest rate risk exposure mainly arises from the positions in the bank's book; especially in conditions of low interest rates, where the Bank registered an increased volume of loans with fixed and variable interest rate (while reducing the loans with adjustable interest rates, due to the implementation of the NBRNM recommendation to exclude adjustable interest rates in new loan and deposits agreements) and long-term securities on the assets side and transformation of time deposits into demand deposits, on the liabilities side. In conditions of reduced interest rates, interest margins are decreased, because interest rates on liabilities are decreasing by a lower percentage compared to interest rates on assets. However, the real effect depends on various factors, including the stability of the economy, the environment and the level of inflation.

The notes 2.3.2 A and 2.3.2 B show the Bank's exposure to risks of interest rates categorized according to the remaining period of the next interest rate change.

**2.3.3 Currency risk**

The Bank is exposed to a currency risk through the transactions in foreign currency. The Bank's net exposure is maintained to a satisfactory level through buying and selling of currencies on account for the recovery of the short-term exemptions. The Bank's exposure to currency risk is presented in note 2.3.3.

On annual basis, the Bank is conducting stress tests of the exposure to currency risk with the application of the presumption for the effect of depreciation and appreciation of the exchange rate for 20% and

**2. Disclosures for risk management (continues)****2.3 Market risk (continues)****2.3.3 Currency risk (continues)**

combined scenarios. The results of the stress test on annual basis are shown in note 2.3.1 A and they indicate that even with the application of the given presumptions the capital adequacy rate is at the expected level.

**2.3.4 Operational risk**

The operational risk is a risk from loss because of inadequate or weak internal processes, inadequate persons and inadequate or weak Bank's systems, external events and legal risk.

The Bank has established a Policy for operational risk management that is adopted by the Bank's Supervisory Board. It is regularly revised by the Supervisory board, and according to the Decision for risk management prescribed by NBRNM. The Policy is estimated at least once a year for its adequacy by the Supervisory board.

Within the Policy, the Bank defines the operational risks as risks that appear because of drawbacks or mistakes in the internal processes, systems and people or because of external events. The designation includes the legal risk as well, and it does not include the strategic risk and the risk from losing the good name (the reputational risk). However, because of the importance of the reputational risk, it is taken into consideration in the operational risks management.

The goal of the operational risk management is to limit the scope of the potential losses and the probability of their realization to a level that is acceptable for the Bank observed from a financial aspect, as well as the Bank's reputation. The Bank accepts those operational risks that when realized will not have a significant effect on the financial result, and respectively will not jeopardize the Bank's further working. For achieving that goal, the policy and the acts that arise from it are establishing a consistent access to the operational risk management.

The Bank calculates a capital requirement for covering the operational risks using the standard access according to the local regulation.

**3 Capital adequacy**

The goals of the Bank when it manages the capital that is a wider concept from the shown „Shareholder's capital" within the Balance sheet itself are:

- to uphold the capital claims set by the regulator;
- to protect the Bank's ability for maintaining the continuity in the working in order to continue issuing a return to the shareholders and the interested parties and
- to withhold a strong capital basis in order to continue the development of its business.

The capital adequacy and own assets are followed on monthly basis by the Bank's management, applying techniques based on the directions provided by NBRNM for the aims of supervision. The reports for capital adequacy are delivered to NBRNM on a quarterly basis or more often on a request from NBRNM.

NBRNM requires every bank or bank group to: (a) hold a minimum level of required capital from 310,000,000 denars, (b) to fulfil the required capital buffers and c) the indicator for total required capital concerning the risk weighted asset to be on or above the level of the adjusted minimum of 8%.

According to the legal regulative, the Bank respects the following rates:

- the regular basic capital must not be lower than 4.5% from the assets weighted according to the risks;
- the basic capital must not be lower than 6% from the assets weighted by the risks;
- the rate of capital adequacy must not be lower than 8% from the asset weighted by the risks and



**3. Capital adequacy (continues)**

- the capital's protective layers such as: protective layer for saving the capital (2.5%), anti-cyclic protective layer (to 2.5%), protective layer for systematic significant banks (from 1% - 3.5%) and system's protective layer of the capital (from 1% - 3%).

Based on the supervisory estimation of the Bank's risk profile, the NBRNM has established an capital addition of 3.25 percentage points (previously 3 percentage points) above the minimum legally established level of capital's adequacy so that by that the Bank in 2022 is obliged to maintain the capitals adequacy rate on a higher level than 11.25% during 2022, not including the protective layers of capital.

In addition, during 2021, the Bank is obliged to maintain the protective layers of capital such as:

- the protective layer for saving the capital, with the rate of 2.5% from the assets weighted according to risks;
- protective layer for a systemic significant bank, with the rate of 2.0% (previously 1.5) from the assets weighted by the risks (The Bank should achieve and maintain this rate of capital protection layer no later than 31st March 2022);
- systematic protective layer for is not currently applicable to the Bank and
- anti-cyclic protective layer of the capital from 0%.

The Bank should achieve and maintain an adequacy rate of 15.75% no later than 31st March 2022.

The Bank's own assets consist of:

- basic capital that consists of Regular basic capital (capital instruments, premium from the sale of the capital instruments, mandatory basic reserve, retained undistributed earnings that is not obliged by any type of future obligations, current income or an income at the end of the year and total of the comprehensive income or loss according to the directions given by NBRNM) and the Additional basic capital (capital instruments and premium from the sale of the capital instruments, adjusted for deductive rates/ corrections according to the directions from NBRNM) and
- the additional capital is comprised from the capital instruments and the subordinated loans and premium from sale of the capital instruments, adjusted for deductive rates/ corrections according to the directions from NBRNM.

The asset weighted according to the credit risk represents a sum of the weighted value of all the balance and off-balance claims. The balance and off-balance claims are allocated to adequate categories of exposure and they are given an adequate risk ponder depending on the degree of the obligor's credit quality or the claim, taking in consideration the influence of the instruments for credit protection.

The asset weighted according to the currency risk represents a sum of the absolute amount of the net position in gold and the Bank's aggregate foreign position. The Bank's aggregate foreign position includes the foreign asset and liability positions. The net spot positions and net forward positions, classified in the risk categories „C“, „D“ и „E“ are shown on a net basis, i.e. are decreased for the adequate amount of the impairment/provisions.

For establishing the capital required for covering the operational risk, the Bank uses the standardized approach that implies allocation of the results from the realized financial activities according to established principles in eight business lines.

For the two presented years, the Bank has fulfilled all the capital requirements, capital addition and the prescribed protective layers of capital covered by the Bank's regular basic capital for 2021: 17.19% (2020: 15.72%).

## **4 Reporting by segments**

For the goals of reporting, the Bank discloses the data according to the operating segments equal to the business lines prescribed by the “Decision for the capital adequacy establishing methodology” and the application of the standardized approach.

### **4.1 The operating segments**

The Bank discloses information separately for each significant operating segment. A segment is considered significant if any of the quantitative thresholds are met:

- the income of the segment participates with 10% or more in the total income of the Bank;
- the absolute amount of profit or loss of the segment represents 10% or more of the higher absolute amount between the total profit of all operating segments which showed a profit or the total loss of all operating segments that showed a loss and
- the assets of the segment participate with 10% or more in the total assets of the Bank.

The operating segments by which the Bank reports are:

- retail banking (households and small companies);
- commercial banking (middle and large retailers according to the Law on Trade companies);
- payment operations and settlement;
- all the other insignificant segments (services related with financing retailers which according to the Law on trade companies are considered as middle and large retailers) trading and sale, services as an agent, assets management, brokerage services (households and small companies);
- unallocated financial activities.

For the purposes of the reporting by segments, the Bank:

- divides the rates of Income statement by separate operating segments and it identifies the incomes/expenses by separate operating segments;
- identifies the assets and liabilities by separate operating segment.

The quantitative information for reporting by operating segments is shown in the note 4A.

### **4.2 Concentration of total incomes and expenses by significant costumers**

The Bank shows the significant costumers and their related parties according to the segments, regarding the total amount of income and expenses for the period on any basis. A significant customer is a household or enterprise, as well as persons related to it, if the Bank realizes 10% or more of its total business income or business expenses.

On the 31.12.2021 and 31.12.2020 there are not any significant costumers.

### **4.3 Geographical areas by which the Bank reports are:**

- Republic of North Macedonia;
- member countries of the European Union;
- other European countries, outside the European Union;
- countries outside of Europe, members of the Organization of economic collaboration and development (OECD);
- other countries that the Bank identifies as individually significant geographical segments;
- all other insignificant geographical segments;
- unallocated.

**5 The fair value of the financial assets and liabilities****5.1 The fair value of the financial assets and liabilities not measured at fair value****5.1.1 Cash and cash equivalents**

The carrying value of cash and cash equivalents is equal to their fair value taking in consideration that they include cash and nostro accounts which represent non-restrictive claims, as well as receivables for deposits and placements in NBRNM and have short term maturity.

**5.1.2 Placements and loans to other banks and investments in securities**

Placements and loans to other banks include the placements between banks.

The fair value of placements and overnight deposits is the same as their carrying value because of the short-term maturity.

The estimated fair value of the deposits and the investments in securities with fixed interest rate is based on the discounted cash flow, using the prevalent interest rate on the money market for debts with similar credit risk and remained maturity.

**5.1.3 Loans and advances to other customers**

Loans and advances to other customers are shown at cost less allowance for impairment. The estimated fair value of the loans and advances represents a discounted amount of the future cash flows expected to be received. In order to establish the fair value, the expected incomes are discounted using the interest rates that prevalent on the market on the date of the Balance sheet.

**5.1.4 Other assets**

Based on the short-term maturity, the carrying value of the other assets is equal to their fair value.

**5.1.5 Deposits to other banks and costumers, other deposits, borrowings and subordinated liabilities**

The estimated fair value of the demand deposits on demand, including the non-interest-bearing deposits represents the amount that should be paid on demand.

The estimated fair value of the deposits having a fixed interest rate and borrowings and subordinated liabilities that are not listed on the active market are established on the basis of the discounted cash flows, using market interest rates for the new debts with similar residual maturity.

**5.1.6 Other liabilities**

Based on the short-term maturity, the carrying value of the other liabilities is equal to their fair value.

The note 5.A shows the summary of the carrying value and fair value of the financial assets and liabilities of the Balance sheet.

**5.2 Levels of fair value of the financial assets and liabilities, measured at fair value**

The Bank classifies the financial assets and liabilities according to the hierarchy and the evaluation techniques and information regarding whether the necessary evaluation inputs are publicly available or not. On that basis there are three levels of hierarchy of the fair value as follows:

- Level 1 – the fair value is established with a direct application/requiring of the listed market price of the financial instruments on the active market. Level 1 comprises the euro-bonds issued by the Republic of Macedonia – Ministry of finance and equity instruments traded on the Macedonian stock market that have data for listed purchase price, government bonds issued by Kingdom of Spain and government bills issued by Republic of Ireland;

**5. The fair value of the financial assets and liabilities (continues)****5.2 Levels of fair values of the financial assets and liabilities, measured at fair value (continues)**

- Level 2 – the fair value is established with the application of techniques for evaluation that contain input information from the active markets (the input information can be directly or indirectly confirmed and followed on the active markets, such as: listed prices on the active market for similar financial instruments or all the significant input information in the model for the estimation of the fair value that can be confirmed and followed on the 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 established by an application of techniques for evaluation that contain input information which cannot be directly or indirectly confirmed or followed on the active markets, that are actually based on the techniques for evaluation in which information for risks of financial instruments has the biggest participation. Level 3 comprises by equity instruments issued by SWIFT SCRL Belgium.

In the note 5.B.1 the quantitative information for classification of financial assets and liabilities are shown according to the levels of their fair value. The Bank has no Financial Liabilities measured at fair value.

**h) Events after the date of the Balance sheet**

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

- from 01.01.2022, Mr. Branko Greganović is appointed as President of the Management Board;
- from 01.01.2022, Mr. Antonio Argir is not a President of the Management Board;
- from 02.01.2022, Mr. Igor Davchevski was reappointed as a member of the Management Board in accordance with a decision for prior consent from the NBRSM issued on 05.11.2021;
- from 03.01.2022, Mr. Peter Zelen was reappointed as a member of the Management Board in accordance with a decision for prior consent of the NBRSM issued on 23.11.2021.

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 analyzing the possible impact of changing micro and macroeconomic conditions on the Bank's financial position and results of operations.

After 31.12.2021 – the date of the announcement, until the date of the approval of these financial statements, there are not any events that would cause correction of the financial statements, nor additional events other than those disclosed above that are materially significant to be disclosed in these financial statements.

**i) Notes to the financial statements****Additional disclosures related to the notes of the financial statements*****Statement of changes in equity and reserves and Note 3. Capital adequacy***

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 Shareholder's Assembly of the Bank.

**i) Notes to the financial statements (continues)*****Note 17. Income tax***

According to the tax regulation, the taxes and the tax liabilities are outdated after the expiration of period of 5 years, with the exception of the tax fraud whose deadline is 10 years. As a result, the Bank's tax liabilities for the period from 2017 to 2021 cannot be considered as final. Any other additional taxes and penalties, if they exist, that can arise in the case of tax control, cannot be determined with reasonable accuracy in this stage.

The income tax rate in 2021 and 2020 is 10%.

***Note 18. Cash and cash equivalents***

The treasury bills are securities that according to the Methodology for recording and evaluating the accounting items and the preparation of financial statements are included in the note Cash and cash equivalents. The treasury bills owned by the Bank at the 31.12.2021 are debt securities issued by NBRNM with a maturity of 36 days and fixed interest rate. They are nominated in denars. The primary market for the treasury bills 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 participate on the treasury bills auctions and they can trade them at the over the counter market.

The effective interest rate of these securities moves from 1.25% to 1.50% (2020: 1.50% to 2.00%) on annual basis.

The note Cash and cash equivalents on the position Interest receivables includes interest-bearing liabilities for time deposits of the Bank up to 3 months in foreign banks, due to negative interest rate in the amount of 289 thousand denars (2020: 253 thousand denars). The total interest expenses of the Bank for negative interest rate for current accounts, time deposits up to 3 months and mandatory reserve is 26,163 thousand denars (2020: 22,633 thousand denars).

***Note 23. Investments securities***

The note Investments securities consist of investments in financial assets available for sale and financial assets held to maturity. They consist of government bills in denars with maturity over 90 days, bonds issued by the government (continued government bonds in denars and with currency clause and euro-bonds), government bonds issued by Kingdom of Spain, government bills issued by Republic of Ireland and equity instruments.

***Bonds***

The continuous government bonds are classified as held to maturity in amount of 11,612,237 thousand denars (2020: 11,297,679 thousand denars).

The continuous government bonds owned by the Bank at 31.12.2021 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 the continuous government bonds includes interest of 96,695 thousand denars (2020: 106,955 thousand

**i) Notes to the financial statements (continues)****Note 23. Investments securities (continues)**

denars). The effective interest rate is from 0.80% to 3.50% on annual basis. During 2022 continuous government bonds in a nominal amount of 1,492,050 thousand denars will mature.

Eurobonds classified as held to maturity are in the amount of 683,895 thousand denars (2020: null). The Eurobonds owned by the Bank on 31.12.2021 are with maturity of 6 years and are denominated in euros. The total amount of Eurobonds includes interest of 13,154 thousand denars (2020: null). The effective interest rate is from 2.03% to 2.05% on annual basis.

Eurobonds are classified as available for sale in amount of 4,121,154 thousand denars (2020: 3,639,456 thousand denars).

Eurobonds owned by the Bank at 31.12.2021 are with maturity of 6 and 7 years and are denominated in euros. The total amount of euro-bonds includes interest of 91,147 thousand denars (2020: 76,308 thousand denars). The effective interest rate is from 1.18% to 3.13% on annual basis.

Government bonds issued by Kingdom of Spain are classified as available for sale and amount to 615,952 thousand denars. The full amount will mature in 2022. The total amount includes interest of 16,544 thousand denars. The effective interest rate is from -0.66% to -0.68% annually.

**Government bills**

The government bills classified as held to maturity are in amount of 597,247 thousand denars (2020: 1,397,415 thousand denars).

The government bills included in the note 23 – Investments securities, have maturity over 90 days and the total amount of the government bills will mature in 2022. The government bills are nominated in denars. The effective interest rate is from 0.50% to 0.70% on annual basis.

The government bills issued by Republic of Ireland are classified as available for sale are in amount of 585,984 thousand denars. The full amount will mature in 2022. The effective interest rate is -0.73% on annual basis.

**Equity instruments**

The equity instruments are issued from financial companies in amount of 125,035 thousand denars (2020: 32,923 thousand denars).

The Bank values the equity instruments according to fair value. The total recorded increase in fair value is in the amount of 90,280 thousand denars (2020: decrease of 1,833 thousand denars). Securities are valued by the last purchase price on every trading day on the Macedonian stock exchange for securities.

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 traded on Macedonian Stock Exchange.

**Note 27. Foreclosed assets**

The Bank is managing, the foreclosed assets according to the NBRNM regulation, thus at foreclosure, the assets are recognized at initial carrying value, which is the lower amount from the estimated value effective on the date of the foreclosure and cost value of the foreclosed assets.

The carrying value of the foreclosed assets at 31.12.2021 is 110,086 thousand denars (2020: 139,195 thousand denars), and the fair value at 31.12.2021 is 253,329 thousand denars (2020: 268,088 thousand denars).

For the assets foreclosed after 11.04.2013, on the date of the foreclosure of the assets, the Bank shows impairment over 20% from the initial carrying value in the Balance sheet. If the amount of the closed impairment/provisions is larger than the impairment of 20% from the initial carrying value, the Bank recognizes this difference as a revaluation reserve on the date of the foreclosure of asset. In the current 2021 the Bank has recorded revaluation reserve in the amount of 183 thousand denars (2020: 175,272 null), whereas release of the revaluation reserves from the sale of foreclosed assets is in the amount of 187 thousand denars (2019: 3,365 thousand denars).

The Bank does not have any limitations on sale of the foreclosed assets.

**i) Notes to the financial statements (continues)*****Note 27. Property and equipment***

On December 31, 2021, the Bank, based on indications for impairment of part of the real estate (business premises), performed an assessment of the property by an internal appraiser.

The assessment was made using the income methods-discounted cash flow method, using a discount rate of 9.12%. The estimated fair value of the real estate is directly dependent on the expected annual net income from the assets from the lease of the real estate, appropriately discounted for the relevant period of time.

Impairment loss for part of the real estate that is recorded on 31.12.2021 is 17,367 thousand denars (2020: null).

***Note 34.1 Deposits from banks***

In the note Deposits from banks at the position Liabilities for interest on deposits includes receivables for interest on current accounts of banks, due to the negative interest rate for them, in the amount of 1 thousand denars (2020: 4). These interest receivables are included in the Bank's loan portfolio. The total income of the Bank from negative interest from current bank accounts is 18 thousand denars (2020: 24 thousand denars).

***Note 36. Borrowings******Domestic sources of funds***

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 47 thousand euros 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 100,000 thousand euros, with the Development Bank of the Republic of North Macedonia (DBRNM). In 2021, were withdrawn funds from DBRNM - two tranches of the EIB 6 credit line in the total amount of 14.4 million euros, 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. At 31.12.2021, 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 16,455 thousand euros.

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.

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

***Foreign sources of funds***

In September 2021, the Bank entered into Agreements with the European Bank for Reconstruction and Development (EBRD) for:

- long-term loan in the amount of 5 million euros, 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 European Bank for Reconstruction and Development (EBRD) Western Balkans Green Economy Financing Facility - WB GEFF - Residential from 16.09.2020 (tranche A and B) in the total amount of 2.2 million euros intended

**i) Notes to the financial statements (continues)****Note 36. Borrowings (continues)**

for further financing of energy efficient projects in the residential sector, ie 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 European Bank for Reconstruction and Development (EBRD) Regional Small & Medium-sized Enterprises Competitiveness Support Program from 16.09.2020 (tranche A and B) in the total amount of about 3.8 million euros, 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.

At 31.12.2021, the Bank complies with the covenants of the agreements.

**Note 37. Subordinated liabilities**

On 12.06.2015, the Bank concluded a Subordinated Loan Agreement with NLB d.d. Ljubljana in the amount of 11,000 thousand euros. The subordinated loan from NLB d.d. Ljubljana was issued with an interest rate of 6 month EURIBOR + 7.5% annually and maturity of 10 years (to 2025). With an annex to the agreement from 26.12.2016 the interest rate is set to 6 month EURIBOR + 6.25% annually with zero floor clause.

On 20.12.2018, the Bank entered into agreement for a subordinated loan with NLB d.d. Ljubljana with an amount of 9,000 thousand euros, with an interest rate of 6 month EURIBOR + 5.25% yearly with zero floor clause and maturity of 10 years (to 2028).

On 13.06.2019 the Bank concluded a Subordinated Loan Agreement with NLB d.d. Ljubljana in the amount of 10,000 thousand euros in exchange for subordinated loan by the International Finance Corporation (IFC) with an interest rate of 6 month EURIBOR + 4.10% annually with zero floor clause and maturity of 10 years (to 2029).

On 22.12.2021 the Bank concluded a Subordinated Loan Agreement with NLB d.d. Ljubljana in the amount of 15,000 thousand euros, with an interest rate of 6 months EURIBOR + 4.48% annually with zero floor clause and maturity of 10 years (to 2031).

**Note 38. Provisions*****Litigations and Provisions for contingent liabilities based on litigation***

Litigation is common in the banking sector, due to the nature of the business. The Bank is sued in several lawsuits from its regular operations with the value of the proceedings in the amount of 637,184 thousand denars (2020: 666,361 thousand denars).

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 2,390 thousand denars (2020: zero). The amount of provisions is slightly reduced by the amount of 54 thousand denars, which amount was paid for one court case that ended to the detriment of the Bank. As of December 31, 2021, the balance of provisions for litigation of the Bank, for a total of seven court cases is in the amount of 64,034 thousand denars (2020: 61,698 thousand denars).



**i) Notes to the financial statements (continues)**
**Note 40. Share capital**

The holders of common shares have the right of a dividend when published and have the right to a vote on the Assembly of shareholders of the Bank with an equivalent of 1 common share. All the shares have the right to a proportionate participation in the distribution of the bankruptcy i.e. the liquidation mass. As at 31.12.2021 and 31.12.2020, the Bank does not own its shares.

In accordance with the shareholders book of the Bank, at 31.12.2021, for 816 common shares i.e. 0.0955% from the total shareholders capital of the Bank (2020: 816 common shares i.e. 0.0955%) there is a limitation of the right to vote for the rights based on the law and/or the decision by another competent body.

**Note 42.1 Potential liabilities**

Potential liabilities of the Bank consist of potential liabilities for loans and unused credit limits, potential liabilities for guarantees and potential liabilities for letters of credits, unused limits of credit cards, unused overdraft on current accounts and other potential liabilities.

**Potential liabilities for loans**

<b>Potential liabilities for loans</b>	<b>Legal entities</b>		<b>Saving banks and other financial companies</b>		<b>Citizens</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
short-term	3,201,565	3,607,692	-	-	1,877	35,569
long-term	3,269,796	2,617,208	57,222	30,489	654,703	546,337
<b>Total potential liabilities for loans</b>	<b>6,471,361</b>	<b>6,224,900</b>	<b>57,222</b>	<b>30,489</b>	<b>656,580</b>	<b>581,906</b>

The division of potential liabilities for loans to legal entities according to revocability is:

- revocable 5,606,280 thousand denars (2020: 5,292,003 thousand denars)
- irrevocable 865,081 thousand denars (2020: 932,897 thousand denars)

The interest rates for the potential liabilities for loans to legal entities are from 0.8% to 9.9% (2020: 1.001% to 9.9%). These credits are secured by deposit of 249,677 thousand denars (2020: 49,618 thousand denars), and the rest 6,221,684 thousand denars are secured with a mortgage, pledge, bill of exchange, guarantee, etc.

The Bank in November 2019 for the first time participates in a syndicated loan issued to the state, i.e. the government and it was irrevocable in the amount of 1,100,000 thousand denars, with interest rate 0.70%. The loan was fully repaid in December 2020.

Total potential liabilities for loans to saving banks and other financial companies are revocable in the amount of 57,222 thousand denars (2020: 30,489 thousand denars). The interest rates of the potential liabilities for loans to saving banks and other financial companies move from 2.38% to 3.05% (2020: 4.9% to 8.9%). The loans are secured with property, bills of exchange and bills of exchange as a notary act.

Total potential liabilities for loans to citizens are revocable. The interest rates for the potential liabilities for loans to citizens move from 0% to 9.5% (2020: 0% to 10.25%). From the total potential liabilities for loans to citizens with the securing framework and mortgage or a pledge are 516,808 thousand denars (2020: 422,493 thousand denars), whereas the rest are secured by bills of exchange, administrative prohibition, deposit and pledge.

i) **Notes to the financial statements (continues)**  
**Note 42.1 Potential liabilities (continues)**

**Potential liabilities for issued guarantees**

<b>Potential liabilities for issued guarantees</b>	<b>2021</b>	<b>2020</b>
short-term	1,032,432	644,108
long-term	7,191,565	6,644,330
<b>Total potential liabilities for issued guarantees</b>	<b>8,223,997</b>	<b>7,288,438</b>

Total potential liabilities for guarantees are irrevocable. From them, 213,511 thousand denars (2020: 265,546 thousand denars) are secured by deposit.

**Potential liabilities for letters of credit**

<b>Potential liabilities for letters of credit</b>	<b>2021</b>	<b>2020</b>
short-term	1,356,318	594,849
long-term	250,544	310,523
<b>Total potential liabilities for letters of credit</b>	<b>1,606,862</b>	<b>905,372</b>

Total potential liabilities for letters of credit are irrevocable. Potential liabilities for letters of credit which are secured by a deposit amount 2,317 thousand denars (2020: 18,091 thousand denars).

**Potential liabilities for limits on current accounts** are irrevocable, in the amount of 1,500,589 thousand denars (2020: 1,527,285 thousand denars) and have an interest rate of 9.25% (2020: 9.5%). From the total potential liabilities for limits on current accounts secured by framework and mortgage amount 151 thousand denars (2020: 212 thousand denars), whereas the rest potential liabilities are secured by bills of exchange, administrative prohibition and deposit.

**Potential liabilities for limits on credit cards** (for legal entities and citizens) amount 1.927.093 thousand denars (2020: 1,928,074 thousand denars) and are irrevocable. The interest rates of the potential liabilities for limits on credit cards move from 5% to 11.25% (2020: 7% to 11.50%). Potential liabilities for limits on credit cards (for legal entities and citizens) that are secured by an administrative prohibition and/or bill of exchange amount 1,407,551 thousand denars (2020: 1,433,440 thousand denars), whereas the rest are secured by a mortgage, deposit, or frame.

**Note 44. Related party transactions**

Related parties include NLB d.d Ljubljana as a "Parent bank", Supervisory Board and persons with special rights and responsibilities in the Bank as "Management personnel of the Bank" and their related entities and family members and members of the NLB Group members as "Other related parties". All banking transactions with related parties are concluded in the normal course of business and are based on market conditions. These include loans, deposits and other transactions.

The income and expenses of the Parent bank mainly consist of interest expenses for subordinated loan, 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 mainly consist of interest income on loans, interest expenses on deposits, fee income from payment transactions and foreign exchange gains and losses. Income and expenses for Other related parties mainly consist of interest income on loans, interest on deposit, fee income and expenses for payment transactions, foreign exchange gains and losses and expenses of consulting services.

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 1 Classification of financial assets and financial liabilities

#### A Classification of financial assets and financial liabilities

	at fair value through profit and loss		at fair value through other comprehensive income		at amortised cost	Total
	for trading	at fair value at initial recognition	debt instruments	equity instruments		
<b>2021 (current year)</b>						
<i>in MKD thousands</i>						
<b>Financial assets</b>						
Cash and cash equivalents	0	0	1,725,827	0	17,978,913	19,704,740
Trading assets	0	0	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0
Derivative assets held for risk management	0	804	0	0	0	804
Loans and advances to banks	0	0	0	0	678	678
Loans and advances to other customers	0	0	0	0	65,593,290	65,593,290
Investments in securities	0	0	5,323,090	125,035	12,893,379	18,341,504
Other assets	0	0	0	0	1,638,367	1,638,367
<b>Total financial assets</b>	<b>0</b>	<b>804</b>	<b>7,048,917</b>	<b>125,035</b>	<b>98,104,627</b>	<b>105,279,383</b>
<b>Financial liabilities</b>						
Trading liabilities	0	0			0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0			0	0
Derivative liabilities held for risk management	0	0			0	0
Deposits from banks	0	0			357,762	357,762
Deposits from other customers	0	0			86,231,406	86,231,406
Issued debt securities	0	0			0	0
Borrowings	0	0			1,518,936	1,518,936
Subordinated liabilities and hybrid instruments	0	0			2,768,342	2,768,342
Other liabilities	0	0			2,386,098	2,386,098
<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>			<b>93,262,544</b>	<b>93,262,544</b>

	at fair value through profit and loss		at fair value through other comprehensive income		at amortised cost	Total
	for trading	at fair value at initial recognition	debt instruments	equity instruments		
<b>2020 (previous year)</b>						
<i>in MKD thousands</i>						
<b>Financial assets</b>						
Cash and cash equivalents	0	0	1,692,983	0	15,890,547	17,583,530
Trading assets	0	0	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0
Derivative assets held for risk management	0	460	0	0	0	460
Loans and advances to banks	0	0	0	0	502,403	502,403
Loans and advances to other customers	0	0	0	0	57,977,711	57,977,711
Investments in securities	0	0	3,639,456	32,923	12,695,094	16,367,473
Other assets	0	0	0	0	1,633,256	1,633,256
<b>Total financial assets</b>	<b>0</b>	<b>460</b>	<b>5,332,439</b>	<b>32,923</b>	<b>88,699,011</b>	<b>94,064,833</b>
<b>Financial liabilities</b>						
Trading liabilities	0	0			0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0			0	0
Derivative liabilities held for risk management	0	0			0	0
Deposits from banks	0	0			345,173	345,173
Deposits from other customers	0	0			79,434,666	79,434,666
Issued debt securities	0	0			0	0
Borrowings	0	0			422,377	422,377
Subordinated liabilities and hybrid instruments	0	0			1,848,018	1,848,018
Other liabilities	0	0			827,163	827,163
<b>Total financial liabilities</b>	<b>0</b>	<b>0</b>			<b>82,877,397</b>	<b>82,877,397</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 2.1 Credit risk

#### A Analysis of the total credit risk exposure

in MKD thousands

##### Credit risk exposure classified in Stage 1

Carrying amount before impairment / provisions  
(Allowance for impairment and provisions)

##### Carrying amount less impairment and provisions

##### Credit risk exposure classified in Stage 2

Carrying amount before impairment / provisions  
(Allowance for impairment and provisions)

##### Carrying amount less impairment and provisions

##### Credit risk exposure classified in Stage 3

Carrying amount before impairment / provisions  
(Allowance for impairment and provisions)

##### Carrying amount less impairment and provisions

Total carrying amount of credit risk assets before  
impairment and provisions

(Total impairment and provisions)

Total carrying amount of credit risk assets less  
impairment and provisions

	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Claims for fees and commissions		Other assets		Off-balance		Total	
	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020
Carrying amount before impairment / provisions	469	502,693	49,727,114	43,837,828	5,323,090	3,639,456	12,893,379	12,695,094	11,429,435	10,242,444	35,469	40,580	224,893	283,632	12,745,035	11,837,846	92,378,884	83,079,573
(Allowance for impairment and provisions)	(14)	(507)	(825,620)	(745,435)	(120)	0	0	0	(14,396)	(12,072)	(917)	(1,070)	(6,180)	(7,611)	(84,508)	(82,532)	(931,755)	(849,227)
Carrying amount less impairment and provisions	455	502,186	48,901,494	43,092,393	5,322,970	3,639,456	12,893,379	12,695,094	11,415,039	10,230,372	34,552	39,511	218,713	276,020	12,660,527	11,755,314	91,447,129	82,230,346
Carrying amount before impairment / provisions	3	0	17,784,214	16,413,718	0	0	0	0	268	266	32,069	31,614	3,826	1,863	1,120,187	456,722	18,940,567	16,904,183
(Allowance for impairment and provisions)	(1)	0	(2,172,971)	(2,272,100)	0	0	0	0	(14)	(13)	(3,992)	(5,237)	(690)	(235)	(70,657)	(39,842)	(2,248,325)	(2,317,427)
Carrying amount less impairment and provisions	2	0	15,611,243	14,141,618	0	0	0	0	254	253	28,077	26,378	3,136	1,628	1,049,530	416,880	16,692,242	14,586,756
Carrying amount before impairment / provisions	315	315	3,269,340	2,601,827	0	0	0	0	0	0	19,061	17,704	22,859	26,072	42,571	3,861	3,354,146	2,649,779
(Allowance for impairment and provisions)	(95)	(94)	(2,209,909)	(1,895,284)	0	0	0	0	0	0	(16,400)	(15,095)	(14,690)	(18,195)	(13,744)	(1,158)	(2,254,838)	(1,929,826)
Carrying amount less impairment and provisions	220	221	1,059,431	706,543	0	0	0	0	0	0	2,661	2,609	8,169	7,877	28,827	2,703	1,099,308	719,953
Total carrying amount of credit risk assets before impairment and provisions	787	503,008	70,780,668	62,853,373	5,323,090	3,639,456	12,893,379	12,695,094	11,429,703	10,242,709	86,599	89,898	251,578	311,567	13,907,793	12,298,429	114,673,597	102,633,534
(Total impairment and provisions)	(110)	(601)	(5,208,500)	(4,912,819)	(120)	0	0	0	(14,410)	(12,085)	(21,309)	(21,401)	(21,560)	(26,042)	(168,909)	(123,532)	(5,434,918)	(5,096,479)
Total carrying amount of credit risk assets less impairment and provisions	677	502,407	65,572,168	57,940,554	5,322,970	3,639,456	12,893,379	12,695,094	11,415,293	10,230,624	65,290	68,498	230,018	285,525	13,738,884	12,174,897	109,238,679	97,537,055

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**2.1 Credit risk**
**B Value of collateral (fair value) taken for credit risk protection**

	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Other assets		Off-balance		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<i>in MKD thousands</i>																
<i>Value of collateral for credit exposure</i>																
First-class collateral instruments																
cash deposits (in a depot and/or restricted on accounts in the bank)	0	0	1,420,870	1,427,611	0	0	0	0	0	0	54,024	22,424	128,843	97,487	1,603,737	1,547,522
government securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
government unconditional guarantees	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
bank guarantees	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guarantees by insurance companies and insurance policies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporate guarantees (except banking and insurance companies)	0	0	138,225	141,134	0	0	0	0	0	0	3,517	762	631,677	616,940	773,419	758,836
Guarantees from citizens	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pledged real estate																
property for personal use (apartments, houses)	0	0	26,446,951	24,242,383	0	0	0	0	0	0	80,578	46,702	521,169	542,781	27,048,698	24,831,866
property for business	0	0	21,449,813	20,429,408	0	0	0	0	0	0	298,842	70,591	4,268,761	4,748,678	26,017,416	25,248,677
Pledged movable property	0	0	4,464,670	4,165,639	0	0	0	0	0	0	66,905	53,402	756,454	1,082,176	5,288,029	5,301,217
Other types of collateral	0	0	9,942,180	11,761,941	0	0	0	0	0	0	27,948	4,093	875,047	947,323	10,845,175	12,713,357
<b>Total value of collateral for credit exposure</b>	<b>0</b>	<b>0</b>	<b>63,862,709</b>	<b>62,168,116</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>531,814</b>	<b>197,974</b>	<b>7,181,951</b>	<b>8,035,385</b>	<b>71,576,474</b>	<b>70,401,475</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 2.1 Credit risk

#### C Concentration of credit risk by sectors and activities

in MKD thousands	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Claims for fees and commissions		Other assets		Off-balance		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Non-residents	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Agriculture, forestry and fisheries	0	0	722,917	728,891	0	0	0	0	0	0	693	708	2	98	6,664	7,628	730,276	737,325
Mining and quarrying	0	0	152,829	99,390	0	0	0	0	0	0	87	81	0	0	3,305	1,658	156,221	101,129
Food industry	0	0	1,758,371	1,383,489	0	0	0	0	0	0	1,069	1,093	18	8	449,021	517,433	2,208,479	1,902,023
Textile industry and production of clothing and footwear	0	0	181,927	189,425	0	0	0	0	0	0	421	412	0	389	37,773	28,743	220,121	218,969
Chemical industry, production of building materials, production and processing of fuels, pharmaceutical industry	0	0	969,287	1,086,843	0	0	0	0	0	0	370	340	0	1	198,862	10,663	1,168,519	1,097,847
Manufacture of metals, machinery, tools and equipment	0	0	1,841,428	2,208,589	0	0	0	0	0	0	858	871	206	1	349,400	528,197	2,191,892	2,737,658
The rest of the processing industry	0	0	877,654	727,048	0	0	0	0	0	0	981	921	279	300	674,328	678,390	1,553,242	1,406,659
Electricity, gas, steam and air conditioning supply	0	0	664,664	456,753	0	0	0	0	0	0	288	269	139	206	239,334	64,278	904,425	521,506
Water supply, waste water disposal, waste management and environmental remediation activities	0	0	190,523	190,647	0	0	0	0	0	0	166	303	83	35	1,111	2,620	191,883	193,605
Construction	0	0	3,332,362	2,215,298	0	0	0	0	0	0	2,377	2,117	84	92	1,530,129	1,036,804	4,864,952	3,254,311
Wholesale and retail trade, repair of motor vehicles and motorcycles	0	0	7,842,439	7,130,875	0	0	0	0	0	0	10,968	9,779	1,902	1,338	4,756,619	3,994,020	12,611,928	11,136,012
Transport and storage	0	0	775,810	677,943	0	0	0	0	0	0	2,772	2,607	159	58	1,310,700	1,200,627	2,089,441	1,881,235
Facilities for accommodation and food service activities	0	0	394,383	580,476	0	0	0	0	0	0	2,290	1,595	139	203	16,197	50,228	413,009	632,502
Information and communications	0	0	351,243	318,167	0	0	0	0	0	0	1,833	1,590	488	265	36,916	27,818	390,480	347,840
Financial and insurance activities	679	502,407	102,082	108,058	0	0	0	0	11,415,293	10,230,624	18,006	21,907	219,464	277,378	23,034	23,059	11,778,558	11,163,433
Real estate activities	0	0	1,926,155	968,976	0	0	0	0	0	0	792	611	863	0	55,439	14,844	1,983,249	984,431
Professional, scientific and technical activities	0	0	442,925	559,366	0	0	0	0	0	0	3,349	2,729	88	408	282,803	239,018	729,165	801,521
Administrative and support service activities	0	0	662,703	245,083	0	0	0	0	0	0	1,203	1,133	36	249	74,151	48,299	738,093	294,764
Public administration and defense, compulsory social security	0	0	308	58,856	5,322,970	3,639,456	12,893,379	12,695,094	0	0	47	27	86	132	5,432	5,543	18,222,222	16,399,108
Education	0	0	42,832	48,016	0	0	0	0	0	0	288	255	0	0	726	894	43,846	49,165
Activities of health and social care	0	0	172,671	332,539	0	0	0	0	0	0	1,041	923	9	14	3,890	4,077	177,611	337,553
Art, entertainment and recreation	0	0	174,049	204,526	0	0	0	0	0	0	917	849	17	9	418,518	412,092	593,501	617,476
Other service activities	0	0	24,175	25,357	0	0	0	0	0	0	1,773	1,533	16	15	4,964	4,752	30,928	31,657
Activities of households as employers, activities of households that produce diverse goods and perform various services for their own needs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Activities of extraterritorial organizations and bodies	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	1	0
Citizens	0	0	41,957,684	37,382,750	0	0	0	0	0	0	12,698	15,842	5,938	4,328	3,259,568	3,273,213	45,235,888	40,676,133
Sole proprietor and individuals who are not considered traders	0	0	10,744	13,192	0	0	0	0	0	0	2	2	0	0	0	0	10,746	13,194
<b>Total</b>	<b>679</b>	<b>502,407</b>	<b>65,572,165</b>	<b>57,940,553</b>	<b>5,322,970</b>	<b>3,639,456</b>	<b>12,893,379</b>	<b>12,695,094</b>	<b>11,415,293</b>	<b>10,230,624</b>	<b>65,290</b>	<b>68,497</b>	<b>230,016</b>	<b>285,527</b>	<b>13,738,884</b>	<b>12,174,898</b>	<b>109,238,676</b>	<b>97,537,056</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 2.1 Credit risk

#### D Concentration of credit risk by geographical location

	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Claims for fees and commissions		Other assets		Off-balance		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<b>Geographical location</b>																		
Republic of Macedonia	679	351	65,564,535	57,932,694	4,121,154	3,639,456	12,893,379	12,695,094	5,830,599	5,301,561	65,223	68,406	207,937	247,479	12,987,361	11,731,878	101,670,867	91,616,919
Member States of the European Union	0	502,056	7,633	7,856	1,201,815	0	0	0	3,211,107	2,898,782	46	58	41	83	10,241	5,140	4,430,883	3,413,975
Europe (other)	0	0	0	3	0	0	0	0	1,891,287	1,565,155	17	9	2,092	129	741,283	437,879	2,634,679	2,003,175
OECD member States (excluding European OECD Member States)	0	0	0	0	0	0	0	0	482,299	465,126	0	21	19,947	37,826	0	0	502,246	502,973
The rest	0	0	0	0	0	0	0	0	0	0	3	4	0	9	0	0	3	13
Other (specify the individual exposure that represents more than 10% of the total credit exposure)																		
<b>Total</b>	<b>679</b>	<b>502,407</b>	<b>65,572,168</b>	<b>57,940,553</b>	<b>5,322,969</b>	<b>3,639,456</b>	<b>12,893,379</b>	<b>12,695,094</b>	<b>11,415,292</b>	<b>10,230,624</b>	<b>65,289</b>	<b>68,498</b>	<b>230,017</b>	<b>285,526</b>	<b>13,738,885</b>	<b>12,174,897</b>	<b>109,238,678</b>	<b>97,537,055</b>

#### E Credit risk analysis of assets measured at fair value through profit and loss

	Trading assets				Financial assets at fair value through profit and loss, designated at initial recognition											
	Debt securities held for trading		Equity securities held for trading		Debt securities		Equity securities		Loans and advances to banks		Loans and advances to other customers		Total			
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<b>The carrying amount of financial assets measured at fair value</b>																
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
risk category	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total carrying amount</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 2.2 Liquidity risk

#### Analysis by maturity of financial assets and liabilities (residual maturity)

	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total
<i>in MKD thousands</i>							
<b>2021 (current year)</b>							
<b>Financial assets</b>							
Cash and cash equivalents	15,008,886	910,935	0	3,799,329	0	0	19,719,150
Trading assets	0	0	0	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Derivative assets held for risk management	804	0	0	0	0	0	804
Loans and advances to banks	471	0	316	0	0	0	787
Loans and advances to other customers	1,492,216	2,669,625	18,281,587	9,860,123	16,788,419	21,453,103	70,545,073
Investment securities	645,521	643,533	2,203,213	5,047,642	8,122,690	1,678,905	18,341,504
Investments in associates	0	0	0	0	0	0	0
Current income tax assets	0	0	0	0	0	0	0
Other assets	1,561,092	54,519	63,919	528	1,175	3	1,681,236
Pledged assets	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0
<b>Total financial assets</b>	<b>18,708,990</b>	<b>4,278,612</b>	<b>20,549,035</b>	<b>18,707,622</b>	<b>24,912,284</b>	<b>23,132,011</b>	<b>110,288,554</b>
<b>Financial liabilities</b>							
Trading liabilities	0	0	0	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Derivative liabilities held for risk management	0	0	0	0	0	0	0
Deposits from banks	357,762	0	0	0	0	0	357,762
Deposits from other customers	67,247,889	2,377,154	9,195,496	4,156,052	3,254,815	0	86,231,406
Issued debt securities	0	0	0	0	0	0	0
Borrowings	44,950	31,675	208,907	317,701	571,111	348,408	1,522,752
Subordinated liabilities	0	0	1,721	0	677,897	2,095,318	2,774,936
Current income tax liabilities	0	78,730	0	0	0	0	78,730
Deferred tax liabilities	0	0	0	0	0	0	0
Other liabilities	2,156,083	53,227	160,599	407	2,449	13,333	2,386,098
<b>Total financial liabilities</b>	<b>69,806,684</b>	<b>2,540,786</b>	<b>9,566,723</b>	<b>4,474,160</b>	<b>4,506,272</b>	<b>2,457,059</b>	<b>93,351,684</b>
<b>Off-balance</b>							
Off-balance asset	1,915,485	0	0	0	0	0	1,915,485
Off-balance liabilities	1,914,501	1,041	62,264	1,217	1,673	173	1,980,869
<b>Maturity incompatibility</b>	<b>(51,096,710)</b>	<b>1,736,785</b>	<b>10,920,048</b>	<b>14,232,245</b>	<b>20,404,339</b>	<b>20,674,779</b>	<b>16,871,486</b>

	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total
<i>in MKD thousands</i>							
<b>2020 (previous year)</b>							
<b>Financial assets</b>							
Cash and cash equivalents	13,511,777	729,420	0	3,354,418	0	0	17,595,615
Trading assets	0	0	0	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Derivative assets held for risk management	263	197	0	0	0	0	460
Loans and advances to banks	134	502,558	315	0	0	0	503,007
Loans and advances to other customers	1,705,195	2,582,847	16,812,045	9,217,493	14,718,186	17,542,586	62,578,352
Investment securities	495,811	1,217,435	2,416,574	1,492,194	8,678,201	2,067,258	16,367,473
Investments in associates	0	0	0	0	0	0	0
Current income tax assets	0	30,924	0	0	0	0	30,924
Other assets	1,567,592	45,300	66,985	161	661	0	1,680,699
Pledged assets	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0
<b>Total financial assets</b>	<b>17,280,772</b>	<b>5,108,681</b>	<b>19,295,919</b>	<b>14,064,266</b>	<b>23,397,048</b>	<b>19,609,844</b>	<b>98,756,530</b>
<b>Financial liabilities</b>							
Trading liabilities	0	0	0	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Derivative liabilities held for risk management	0	0	0	0	0	0	0
Deposits from banks	345,177	0	0	0	0	0	345,177
Deposits from other customers	57,775,854	3,159,286	9,937,311	5,051,769	3,510,446	0	79,434,666
Issued debt securities	0	0	0	0	0	0	0
Borrowings	30,911	10,014	117,282	112,017	144,274	12,804	427,302
Subordinated liabilities	0	0	1,374	0	678,634	1,172,186	1,852,194
Current income tax liabilities	0	0	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0	0	0
Other liabilities	609,563	45,011	167,508	7	147	4,927	827,163
<b>Total financial liabilities</b>	<b>58,761,505</b>	<b>3,214,311</b>	<b>10,223,475</b>	<b>5,163,793</b>	<b>4,333,501</b>	<b>1,189,917</b>	<b>82,886,502</b>
<b>Off-balance</b>							
Off-balance asset	695,785	6,349	0	0	0	0	702,134
Off-balance liabilities	696,803	7,816	9,467	20,368	3,621	0	738,075
<b>Maturity incompatibility</b>	<b>(41,481,751)</b>	<b>1,892,903</b>	<b>9,062,977</b>	<b>8,880,105</b>	<b>19,059,926</b>	<b>18,419,927</b>	<b>15,834,087</b>



# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 2.3 Market risk

#### 2.3.1. Analysis of the sensitivity of assets and liabilities on changes in market risk

##### A. Analysis of the sensitivity of changes in the market risk of assets and liabilities

#### 2021 (current year)

Amount prior to sensitivity analysis/stress tests (balance as at 31.12.2021)

##### Effects of applying scenarios:

##### Risk of exchange rate fluctuation

- Denar depreciates by 20% against all other currencies
- Denar appreciates by 20% against all other currencies

##### Risk of interest rate change \*

- Effect of parallel shock up (parallel increase of interest rates by 200 bp / 400 bp for MKD currency)

##### Risk of a change in the market price of equity securities

- Reduction of 50% of the market price of equity securities

##### Combined scenarios:

- Effect of applying the depreciation of the Denar by 20% on the amount of credits in C, D and E

- Increase in the amount of loans in C, D and E for 10%
- Increase in the amount of loans in C, D and E for 30%
- Increase in the amount of loans in C, D and E for 50%

##### - Combined by:

- Effect of applying the depreciation of the Denar by 20% of the loan portfolio
- Increase in the amount of loans in C, D and E for 30%
- Effect of interest curve flattener

#### 2020 (previous year)

Amount prior to sensitivity analysis / stress tests (balance as at 31.12.2020)

##### Effects of applying scenarios:

##### Risk of exchange rate fluctuation

- Denar depreciates by 20% against all other currencies
- Denar appreciates by 20% against all other currencies

##### Risk of interest rate change \*\*

- Parallel shift of market interest rates by 200 basis points
- Parallel shift of market interest rates by 400 basis points

##### Risk of a change in the market price of equity securities

- Reduction of 50% of the market price of equity securities

##### Combined scenarios:

- Effect of applying the depreciation of the Denar by 20% on the amount of credits in C, D and E

- Increase in the amount of loans in C, D and E for 10%
- Increase in the amount of loans in C, D and E for 30%
- Increase in the amount of loans in C, D and E for 50%

##### - Combined by:

- Effect of applying the depreciation of the Denar by 20% of the loan portfolio
- Increase in the amount of loans in C, D and E for 30%
- Parallel shift of market interest rates by 400 basis points

Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
in MKD thousands	in MKD thousands	in MKD thousands	in %
2,219,107	14,987,229	83,342,097	17.98%
2,371,816	14,626,355	88,856,108	16.46%
2,066,398	15,348,103	77,828,085	19.72%
1,720,699	14,488,821	83,342,097	17.38%
2,156,589	14,924,711	83,279,579	17.92%
2,384,270	14,626,355	83,672,423	17.48%
1,809,943	14,578,065	88,874,243	16.40%
1,713,362	14,481,484	88,910,513	16.29%
1,616,781	14,384,903	88,946,783	16.17%
1,214,954	13,983,076	88,910,513	15.73%
1,704,271	11,732,930	74,643,139	15.72%
2,024,472	11,696,941	79,391,962	14.73%
1,384,070	11,768,919	69,597,025	16.91%
0	0	0	0.00%
1,263,927	11,292,586	74,643,139	15.13%
1,687,810	11,716,469	74,626,678	15.70%
1,704,271	11,696,941	75,032,496	15.59%
1,611,169	11,639,828	79,391,962	14.66%
1,496,944	11,525,603	79,391,962	14.52%
1,382,719	11,411,378	79,391,962	14.37%
1,056,600	11,085,260	79,391,962	13.96%

\* According to the changes in the interest rate risk management, when carrying out stress testing for 2019 the Flattener shock scenario is taken as the scenario with the greatest negative impact on the Bank's exposure to the interest rate risk of the six prescribed scenarios in accordance with new Methodology for interest rate risk.

\*\* According to the changes in the interest rate risk management, when carrying out stress testing, the parallel shift of the market interest rates by 200 ie 400 basis points was taken into account, applying the Methodology for proportional distribution of the core avista deposits.

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**

(all amounts in MKD thousands unless otherwise stated)

**2.3 Market risk**
**2.3.1 Analysis of the sensitivity of assets and liabilities to changes in market risk**
**B. Analysis of the amount exposed to market risk for the trading portfolio**

	current year 2021				previous year 2020			
	balance as at December 31	average amount	highest amount (maximum)	lowest amount (minimum)	balance as at December 31	average amount	highest amount (maximum)	lowest amount (minimum)
Amount exposed to risk for interest-bearing instruments	0	0	0	0	0	0	0	0
Amount exposed to risk in instruments in foreign currency	0	0	0	0	0	0	0	0
Amount exposed to risk of equity instruments	0	0	0	0	0	0	0	0
Variance (netting effect)	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**2.3 Market risk**
**2.3.2 Analysis of the interest rate risk of financial assets and liabilities (excluding trading assets)**
**A. Analysis of the sensitivity of interest rate changes**

	Position	Currency	in MKD thousands	
			current year 2021	previous year 2020
			Amount	Amount
1.1	NET WEIGHTED POSITION FOR CURRENCY CHF (FIR + VIR + AIR)	CHF	1,848	687
1.2	NET WEIGHTED POSITION FOR CURRENCY EUR (FIR + VIR + AIR)	EUR	196,706	126,494
1.3	NET WEIGHTED POSITION FOR CURRENCY MKD (FIR + VIR + AIR)	MKD	1,110,094	857,072
1.4	NET-WEAPONED POSITION FOR CURRENCY MKDclCHF (FIR + VIR + AIR)	MKDclCHF	0	0
1.5	NET-WEAPONED POSITION FOR CURRENCY MKDclEUR (FIR + VIR + AIR)	MKDclEUR	1,118,324	894,491
1.6	NET WEIGHTED POSITION FOR CURRENCY MKDclUSD (FIR + VIR + AIR)	MKDclUSD	1,308	942
1.7	NET-WEAPONED POSITION FOR CURRENCY other (FIR + VIR + AIR)	other	(1,081)	(921)
1.8	NET WEIGHTED POSITION FOR CURRENCY USD (FIR + VIR + AIR)	USD	(4,087)	(1,494)
2	<b>TOTAL WEIGHTED AMOUNT - CHANGING THE ECONOMIC VALUE OF THE PORTFOLIO OF BANKING ACTIVITIES (1.1 + 1.2 + ...)</b>		<b>2,423,112</b>	<b>1,877,271</b>
3	OWN FUNDS		14,323,148	11,732,932
4	<b>TOTAL WEIGHTED AMOUNT / OWN FUNDS (2/3 * 100)</b>		<b>16.92%</b>	<b>16.00%</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 2.3 Market risk

#### 2.3.2 Analysis of the interest rate risk of financial assets and liabilities (excluding trading assets)

##### B. Analysis of the compliance of the interest rates

in MKD thousands	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total
<b>2021 (current year)</b>							
<b>Financial assets</b>							
Cash and cash equivalents	4,202,474	911,021	0	0	0	0	5,113,495
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Loans and advances to banks	456	0	0	0	0	0	456
Loans and advances to other customers	24,552,265	1,690,833	9,710,163	9,045,487	13,199,361	5,772,693	63,970,802
Investment securities	308,134	586,041	2,089,297	4,970,913	7,929,156	1,553,870	17,437,411
Other not mentioned interest sensitive assets	0	0	0	0	0	0	0
<b>Total interest sensitive financial assets</b>	<b>29,063,329</b>	<b>3,187,895</b>	<b>11,799,460</b>	<b>14,016,400</b>	<b>21,128,517</b>	<b>7,326,563</b>	<b>86,522,164</b>
<b>Financial liabilities</b>							
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Deposits from banks	0	0	0	0	0	0	0
Deposits from other customers	5,178,483	1,847,407	8,014,756	2,911,999	1,173,305	0	19,125,950
Issued debt securities	0	0	0	0	0	0	0
Borrowings	68,133	435,001	74,226	25,123	22,709	83	625,275
Subordinated liabilities and hybrid instruments	0	0	2,766,621	0	0	0	2,766,621
Other not mentioned interest sensitive liabilities	0	0	0	0	0	0	0
<b>Total interest sensitive financial liabilities</b>	<b>5,246,616</b>	<b>2,282,408</b>	<b>10,855,603</b>	<b>2,937,122</b>	<b>1,196,014</b>	<b>83</b>	<b>22,517,846</b>
<b>Net balance position</b>	<b>23,816,713</b>	<b>905,487</b>	<b>943,857</b>	<b>11,079,278</b>	<b>19,932,503</b>	<b>7,326,480</b>	<b>64,004,318</b>
Off-balance interest sensitive asset positions	1,915,485	0	0	0	0	0	1,915,485
Off-balance interest sensitive liability positions	1,914,443	0	0	0	0	0	1,914,443
<b>Net off-balance position</b>	<b>1,042</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,042</b>
<b>Total net position</b>	<b>23,817,755</b>	<b>905,487</b>	<b>943,857</b>	<b>11,079,278</b>	<b>19,932,503</b>	<b>7,326,480</b>	<b>64,005,360</b>

in MKD thousands	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total
<b>2020 (previous year)</b>							
<b>Financial assets</b>							
Cash and cash equivalents	3,950,173	729,147	0	0	0	0	4,679,320
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Loans and advances to banks	126	501,851	0	0	0	0	501,977
Loans and advances to other customers	22,941,762	1,477,008	10,252,701	8,171,222	10,100,395	3,599,373	56,542,461
Investment securities	461,690	1,150,000	2,331,167	1,492,050	8,489,480	1,887,750	15,812,137
Other not mentioned interest sensitive assets	0	0	0	0	0	0	0
<b>Total interest sensitive financial assets</b>	<b>27,353,751</b>	<b>3,858,006</b>	<b>12,583,868</b>	<b>9,663,272</b>	<b>18,589,875</b>	<b>5,487,123</b>	<b>77,535,895</b>
<b>Financial liabilities</b>							
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0	0	0	0
Deposits from banks	0	0	0	0	0	0	0
Deposits from other customers	5,096,831	3,034,077	10,957,743	3,529,478	1,208,184	0	23,826,313
Issued debt securities	0	0	0	0	0	0	0
Borrowings	122,083	89,494	126,791	37,525	45,651	387	421,931
Subordinated liabilities and hybrid instruments	0	0	1,846,644	0	0	0	1,846,644
Other not mentioned interest sensitive liabilities	0	0	0	0	0	0	0
<b>Total interest sensitive financial liabilities</b>	<b>5,218,914</b>	<b>3,123,571</b>	<b>12,931,178</b>	<b>3,567,003</b>	<b>1,253,835</b>	<b>387</b>	<b>26,094,888</b>
<b>Net balance position</b>	<b>22,134,837</b>	<b>734,435</b>	<b>(347,310)</b>	<b>6,096,269</b>	<b>17,336,040</b>	<b>5,486,736</b>	<b>51,441,007</b>
Off-balance interest sensitive asset positions	695,785	6,349	0	0	0	0	702,134
Off-balance interest sensitive liability positions	696,735	6,129	0	0	0	0	702,864
<b>Net off-balance position</b>	<b>(950)</b>	<b>220</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(730)</b>
<b>Total net position</b>	<b>22,133,887</b>	<b>734,655</b>	<b>(347,310)</b>	<b>6,096,269</b>	<b>17,336,040</b>	<b>5,486,736</b>	<b>51,440,277</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 2.3 Market risk 2.3.3 Currency risk

	in MKD thousands				
	MKD	EUR	USD	Other currencies	Total
<b>2021 (current year)</b>					
<b>Monetary assets</b>					
Cash and cash equivalents	8,939,637	5,562,365	2,480,840	2,721,898	19,704,740
Trading assets	0	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0
Derivative assets held for risk management	0	804	0	0	804
Loans and advances to banks	457	221	0	0	678
Loans and advances to other customers	41,010,217	24,525,465	53,796	3,812	65,593,290
Investment securities	11,921,302	6,345,150	75,052	0	18,341,504
Investments in associates	0	0	0	0	0
Current income tax assets	0	0	0	0	0
Other assets	1,562,368	73,966	1,859	174	1,638,367
Pledged assets	0	0	0	0	0
Deferred tax assets	0	0	0	0	0
<b>Total monetary assets</b>	<b>63,433,981</b>	<b>36,507,971</b>	<b>2,611,547</b>	<b>2,725,884</b>	<b>105,279,383</b>
<b>Monetary liabilities</b>					
Trading liabilities	0	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0	0
Derivative liabilities held for risk management	0	0	0	0	0
Deposits from banks	58,981	189,273	19,046	90,462	357,762
Deposits from other customers	49,345,215	31,433,064	3,391,926	2,061,201	86,231,406
Issued debt securities	0	0	0	0	0
Borrowings	0	1,518,936	0	0	1,518,936
Subordinated liabilities	0	2,768,342	0	0	2,768,342
Current income tax liabilities	78,730	0	0	0	78,730
Deferred tax liabilities	0	0	0	0	0
Other liabilities	1,791,566	424,256	100,730	69,546	2,386,098
<b>Total monetary liabilities</b>	<b>51,274,492</b>	<b>36,333,871</b>	<b>3,511,702</b>	<b>2,221,209</b>	<b>93,341,274</b>
<b>Net position</b>	<b>12,159,489</b>	<b>174,100</b>	<b>(900,155)</b>	<b>504,675</b>	<b>11,938,109</b>

	in MKD thousands				
	MKD	EUR	USD	Other currencies	Total
<b>2020 (previous year)</b>					
<b>Monetary assets</b>					
Cash and cash equivalents	8,124,905	4,885,929	2,582,668	1,990,028	17,583,530
Trading assets	0	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0	0
Derivative assets held for risk management	0	460	0	0	460
Loans and advances to banks	130	221	502,056	0	502,407
Loans and advances to other customers	36,514,782	21,400,669	47,375	14,885	57,977,711
Investment securities	12,383,484	3,983,989	0	0	16,367,473
Investments in associates	0	0	0	0	0
Current income tax assets	30,924	0	0	0	30,924
Other assets	1,573,403	57,940	1,782	131	1,633,256
Pledged assets	0	0	0	0	0
Deferred tax assets	0	0	0	0	0
<b>Total monetary assets</b>	<b>58,627,628</b>	<b>30,329,208</b>	<b>3,133,881</b>	<b>2,005,044</b>	<b>94,095,761</b>
<b>Monetary liabilities</b>					
Trading liabilities	0	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0	0
Derivative liabilities held for risk management	0	0	0	0	0
Deposits from banks	36,391	214,781	26,872	67,133	345,177
Deposits from other customers	48,194,466	26,385,554	2,951,847	1,902,799	79,434,666
Issued debt securities	0	0	0	0	0
Borrowings	0	422,377	0	0	422,377
Subordinated liabilities	0	1,848,018	0	0	1,848,018
Current income tax liabilities	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0
Other liabilities	464,793	250,875	82,463	29,032	827,163
<b>Total monetary liabilities</b>	<b>48,695,650</b>	<b>29,121,605</b>	<b>3,061,182</b>	<b>1,998,964</b>	<b>82,877,401</b>
<b>Net position</b>	<b>9,931,978</b>	<b>1,207,603</b>	<b>72,699</b>	<b>6,080</b>	<b>11,218,360</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**3 Capital Adequacy**

**REPORT**  
for the capital adequacy ratio  
as at 31.12.2021

in 000 denars

Number	DESCRIPTION	Amount
1	2	3
<b>I</b>	<b>Credit risk weighted assets</b>	
1	Credit risk weighted assets by applying a standardized approach	75,008,222
2	Capital needed to cover the credit risk	6,000,658
<b>II</b>	<b>ASSETS BROKED BY CURRENT RISK</b>	
3	Aggregate foreign exchange position	927,833
4	Net position in gold	0
5	Capital needed to cover the currency risk	74,227
6	Currency risk weighted assets	927,833
<b>III</b>	<b>ACTIVITY BROADCASTED BY OPERATIONAL RISK</b>	
7	Capital needed to cover operational risk by applying a basic indicator approach	0
8	Capital needed to cover operational risk by applying a standardized approach	591,778
9	Operating risk weighted assets	7,397,231
<b>IV</b>	<b>ACTIVITY BROADCASTED BY OTHER RISKS</b>	
10	Capital needed to cover the risk of a change in commodity prices	0
11	Capital needed to cover market risks (11.1 + 11.2 + 11.3)	0
11.1	Capital needed to cover the position risk (11.1.1 + 11.1.2 + 11.1.3 + 11.1.4)	0
11.1.1	Capital needed to cover the specific risk of investments in debt instruments	0
11.1.2	Capital needed to cover the general risk of investments in debt instruments	0
11.1.3	Capital needed to cover the specific risk of investments in equity instruments	0
11.1.4	Capital needed to cover the general risk of equity investments	0
11.2	Capital needed to cover the exposure limits	0
11.3	Capital needed to cover the exceeding of exposure limits	0
12	Capital needed to cover the settlement / delivery risk	0
13	Capital needed to cover market risks from other counterparties	705
14	Capital needed to cover other risks (10 + 11 +12 + 13)	705
15	Assets weighted by other risks	8,811
<b>V</b>	<b>RISK WEIGHTED ACTION</b>	<b>83,342,097</b>
14	Capital needed to cover the risks	6,667,368
<b>VI</b>	<b>OWN FUNDS</b>	<b>14,987,229</b>
<b>VII</b>	<b>CAPITAL ADEQUACY (VI / V)</b>	<b>17.98%</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**3 Capital Adequacy**

**REPORT**  
for the capital adequacy ratio  
as at 31.12.2020

in 000 denars

Number	DESCRIPTION	Amount
1	2	3
<b>I</b>	<b>Credit risk weighted assets</b>	
1	Credit risk weighted assets by applying a standardized approach	65,797,037
2	Capital needed to cover the credit risk	5,263,763
<b>II</b>	<b>ASSETS BROKED BY CURRENT RISK</b>	0
3	Aggregate foreign exchange position	1,658,751
4	Net position in gold	0
5	Capital needed to cover the currency risk	132,700
6	Currency risk weighted assets	1,658,751
<b>III</b>	<b>ACTIVITY BROADCASTED BY OPERATIONAL RISK</b>	0
7	Capital needed to cover operational risk by applying a basic indicator approach	0
8	Capital needed to cover operational risk by applying a standardized approach	574,380
9	Operating risk weighted assets	7,179,745
<b>IV</b>	<b>ACTIVITY BROADCASTED BY OTHER RISKS</b>	0
10	Capital needed to cover the risk of a change in commodity prices	0
11	Capital needed to cover market risks (11.1 + 11.2 + 11.3 + 11.4 + 11.5)	0
11.1	Capital needed to cover the position risk (11.1.1 + 11.1.2 + 11.1.3 + 11.1.4)	0
11.1.1	Capital needed to cover the specific risk of investments in debt instruments	0
11.1.2	Capital needed to cover the general risk of investments in debt instruments	0
11.1.3	Capital needed to cover the specific risk of investments in equity instruments	0
11.1.4	Capital needed to cover the general risk of equity investments	0
11.2	Capital needed to cover the settlement / delivery risk	0
11.3	Capital required to cover the risk of the counterparty	0
12	Capital needed to cover the settlement / delivery risk	0
13	Capital needed to cover the risk of the other contracting party	607
14	Capital needed to cover other risks (10 + 11 + 12 + 13)	607
15	Assets weighted by other risks	7,583
<b>V</b>	<b>RISK WEIGHTED ACTION</b>	<b>74,643,116</b>
14	Capital needed to cover the risks	5,971,449
<b>VI</b>	<b>OWN FUNDS</b>	<b>11,732,932</b>
<b>VII</b>	<b>CAPITAL ADEQUACY (VI / V)</b>	<b>15.72%</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 3 Capital Adequacy

#### REPORT for own assets as at 31.12.2021

		in 000 denars
Number	DESCRIPTION	Amount
<b>1</b>	<b>2</b>	<b>3</b>
1.	Own assets	14,987,229
2.	Core capital	12,419,314
3.	Regular Core Capital (ROC)	12,419,314
3.1.	Positions in the ROK	12,499,084
3.1.1.	ROK Capital Instruments	854,136
3.1.2.	Premium from capital instruments from the ROK	2,274,484
3.1.3.	Mandatory general reserve (general reserve fund)	7,119,458
3.1.4.	Retained undistributed profit	1,991,178
3.1.5.	(-) Accumulated loss from previous years	0
3.1.6.	Current profit or profit at the end of the year	0
3.1.7.	Cumulative comprehensive profit or loss	259,828
3.2.	(-) Deduction items from the ROK	-79,770
3.2.1.	(-) Loss at the end of the year or current loss	0
3.2.2.	(-) Intangible assets	-79,770
3.2.3.	(-) Deferred tax assets that are dependent on the future profitability of the bank	0
3.2.4.	(-) Investments in own capital instruments from ROK	0
3.2.4.1.	(-) Direct investments in own capital instruments from ROK	0
3.2.4.2.	(-) Indirect investments in own capital instruments from the ROK	0
3.2.4.3.	(-) Synthetic investments in own capital instruments from the ROK	0
3.2.4.4.	(-) Investments in own capital instruments from the ROK for which the bank has a contractual obligation to buy	0
3.2.5.	(-) Direct, indirect and synthetic investments in capital instruments from the ROK of persons in the financial sector, whereby those entities have investments in the bank	0
3.2.6.	(-) Direct, indirect and synthetic investments in capital instruments from the ROK of financial sector entities in which the bank does not have a significant investment	0
3.2.7.	(-) Direct, indirect and synthetic investments in capital instruments from the ROK of financial sector entities in which the bank has a significant investment	0
3.2.8.	(-) Amount of deductions from DOCs that exceeds the total amount of DOS	0
3.2.9.	(-) Amount of exceeding the limits for investments in non-financial institutions	0
3.2.10.	(-) Expenses for tax	0
3.2.11.	(-) Difference between the amount of the required and the impairment / special reserve	0
3.3.	Regulatory adjustments to ROC	0
3.3.1.	(-) Increase in the ROE that arises from securitization positions	0
3.3.2.	(-) Profits or (+) losses from cash flow hedge	0
3.3.3.	(-) Gains or (+) losses from bank's liabilities that are measured at fair value	0
3.3.4.	(-) Gains or (+) losses associated with liabilities based on derivatives that are measured at fair value	0
3.4.	Positions as a result of consolidation	0
3.4.1.	Non-controlling (minority) share that is recognized in the ROC on a consolidated basis	0
3.4.2.	The rest	0
3.5.	Other positions from ROK	0
4.	Fixed Equity Capital (FEC)	0
4.1.	Positions in FEC	0
4.1.1.	Capital instruments from FEC	0
4.1.2.	Premium from capital instruments from FEC	0
4.2.	(-) Deducted items from FEC	0
4.2.1.	(-) Investments in equity instruments of FEC	0
4.2.1.1.	(-) Direct investments in equity instruments of FEC	0
4.2.1.2.	(-) Indirect investments in equity instruments of FEC	0
4.2.1.3.	(-) Synthetic investments in own equity instruments of FEC	0
4.2.1.4.	(-) Investments in own equity instruments of FEC for which the bank has a contractual obligation to buy	0
4.2.2.	(-) Direct, indirect and synthetic investments in equity instruments of the DPL of persons in the financial sector, whereby those entities have investments in the bank	0
4.2.3.	(-) Direct, indirect and synthetic investments in equity instruments of DFCs of persons in the financial sector in which the bank does not have a significant investment	0
4.2.4.	(-) Direct, indirect and synthetic investments in equity instruments of DFCs of persons in the financial sector in which the bank has a significant investment	0
4.2.5.	(-) Amount of deductions from the DC that exceeds the total amount of the DC	0
4.2.6.	(-) Expenses for tax	0
4.3.	Regulatory adjustments to FEC	0
4.3.1.	(-) Increase of DOC arising from securitization positions	0
4.3.2.	(-) Profits or (+) losses from cash flow hedge	0
4.3.3.	(-) Gains or (+) losses from bank's liabilities that are measured at fair value	0
4.3.4.	(-) Gains or (+) losses associated with liabilities based on derivatives that are measured at fair value	0
4.4.	Positions as a result of consolidation	0
4.4.1.	(+/-) Acceptable additional Tier 1 capital that is recognized in the DAC on a consolidated basis	0
4.4.2.	The rest	0
4.5.	Other positions from the FEC	0
5.	Additional capital (AC)	2,567,915
5.1.	Positions in AC	2,567,915
5.1.1.	Capital instruments from AC	0
5.1.2.	Subordinated loans	2,567,915
5.1.3.	Premium from capital instruments from the AC	0
5.2.	(-) Deductions from the AC	0
5.2.1.	(-) Investments in equity instruments of the AC	0
5.2.1.1.	(-) Direct investments in equity instruments of the AC	0
5.2.1.2.	(-) Indirect investments in equity instruments of the AC	0
5.2.1.3.	(-) Synthetic investments in equity instruments of the AC	0
5.2.1.4.	(-) Investments in equity instruments of the AC for which the bank has a contractual obligation to buy	0
5.2.2.	(-) direct, indirect and synthetic investments in AC positions of persons in the financial sector, whereby those entities have investments in the bank	0
5.2.3.	(-) direct, indirect and synthetic investments in DC positions of persons in the financial sector in which the bank does not have a significant investment	0
5.2.4.	(-) direct, indirect and synthetic investments in AC positions of persons in the financial sector in which the bank has a significant investment	0
5.3.	Regulatory compliance of AC	0
5.3.1.	(-) Increase of AC arising from securitization positions	0
5.3.2.	(-) Profits or (+) losses from cash flow hedge	0
5.3.3.	(-) Gains or (+) losses from bank's liabilities that are measured at fair value	0
5.3.4.	(-) Gains or (+) losses associated with liabilities based on derivatives that are measured at fair value	0
5.4.	Positions as a result of consolidation	0
5.4.1.	Acceptable additional capital that is recognized in the AC on a consolidated basis	0
5.4.2.	The rest	0
5.5.	Other positions of the AC	0



# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 3 Capital Adequacy

#### REPORT for own assets as at 31.12.2020

Number	DESCRIPTION	Amount
1	2	3
<b>1.</b>	<b>Own assets</b>	<b>11,732,932</b>
<b>2.</b>	<b>Core capital</b>	<b>9,951,982</b>
<b>3.</b>	<b>Regular Core Capital (ROC)</b>	<b>9,951,982</b>
<b>3.1.</b>	<b>Positions in the ROK</b>	<b>10,018,463</b>
3.1.1.	ROCK Capital Instruments	854,136
3.1.2.	Premium from capital instruments from the ROK	2,274,484
3.1.3.	Mandatory general reserve (general reserve fund)	5,449,124
3.1.4.	Retained undistributed profit	1,144,753
3.1.5.	(-) Accumulated loss from previous years	0
3.1.6.	Current profit or profit at the end of the year	0
3.1.7.	Cumulative comprehensive profit or loss	295,966
3.2.	(-) Deduction items from the ROK	-66,481
3.2.1.	(-) Loss at the end of the year or current loss	0
3.2.2.	(-) Intangible assets	-66,481
3.2.3.	(-) Deferred tax assets that are dependent on the future profitability of the bank	0
3.2.4.	(-) Investments in own capital instruments from ROK	0
3.2.4.1.	(-) Direct investments in own capital instruments from ROK	0
3.2.4.2.	(-) Indirect investments in own capital instruments from the ROK	0
3.2.4.3.	(-) Synthetic investments in own capital instruments from the ROK	0
3.2.4.4.	(-) Investments in own capital instruments from the ROK for which the bank has a contractual obligation to buy	0
3.2.5.	(-) Direct, indirect and synthetic investments in capital instruments from the ROK of persons in the financial sector, whereby those entities have investments in the bank	0
3.2.6.	(-) Direct, indirect and synthetic investments in capital instruments from the ROK of financial sector entities in which the bank does not have a significant investment	0
3.2.7.	(-) Direct, indirect and synthetic investments in capital instruments from the ROK of financial sector entities in which the bank has a significant investment	0
3.2.8.	(-) Amount of deductions from DOCs that exceeds the total amount of DOS	0
3.2.9.	(-) Amount of exceeding the limits for investments in non-financial institutions	0
3.2.10.	(-) Expenses for tax	0
3.2.11.	(-) Difference between the amount of the required and the impairment / special reserve	0
3.3.	Regulatory adjustments to ROC	0
3.3.1.	(-) Increase in the ROE that arises from securitization positions	0
3.3.2.	(-) Profits or (+) losses from cash flow hedge	0
3.3.3.	(-) Gains or (+) losses from bank's liabilities that are measured at fair value	0
3.3.4.	(-) Gains or (+) losses associated with liabilities based on derivatives that are measured at fair value	0
3.4.	Positions as a result of consolidation	0
3.4.1.	Non-controlling (minority) share that is recognized in the ROC on a consolidated basis	0
3.4.2.	The rest	0
3.5.	Other positions from ROK	0
<b>4.</b>	<b>Fixed Equity Capital (FEC)</b>	<b>0</b>
4.1.	Positions in FEC	0
4.1.1.	Capital instruments from FEC	0
4.1.2.	Premium from capital instruments from FEC	0
4.2.	(-) Deducted items from FEC	0
4.2.1.	(-) Investments in equity instruments of FEC	0
4.2.1.1.	(-) Direct investments in equity instruments of FEC	0
4.2.1.2.	(-) Indirect investments in equity instruments of FEC	0
4.2.1.3.	(-) Synthetic investments in own equity instruments of FEC	0
4.2.1.4.	(-) Investments in own equity instruments of FEC for which the bank has a contractual obligation to buy	0
4.2.2.	(-) Direct, indirect and synthetic investments in equity instruments of the DPL of persons in the financial sector, whereby those entities have investments in the bank	0
4.2.3.	(-) Direct, indirect and synthetic investments in equity instruments of DFCs of persons in the financial sector in which the bank does not have a significant investment	0
4.2.4.	(-) Direct, indirect and synthetic investments in equity instruments of DFCs of persons in the financial sector in which the bank has a significant investment	0
4.2.5.	(-) Amount of deductions from the DC that exceeds the total amount of the DC	0
4.2.6.	(-) Expenses for tax	0
4.3.	Regulatory adjustments to FEC	0
4.3.1.	(-) Increase of DOC arising from securitization positions	0
4.3.2.	(-) Profits or (+) losses from cash flow hedge	0
4.3.3.	(-) Gains or (+) losses from bank's liabilities that are measured at fair value	0
4.3.4.	(-) Gains or (+) losses associated with liabilities based on derivatives that are measured at fair value	0
4.4.	Positions as a result of consolidation	0
4.4.1.	(+/-) Acceptable additional Tier 1 capital that is recognized in the DAC on a consolidated basis	0
4.4.2.	The rest	0
4.5.	Other positions from the FEC	0
<b>5.</b>	<b>Additional capital (AC)</b>	<b>1,780,950</b>
5.1.	Positions in AC	1,780,950
5.1.1.	Capital instruments from AC	0
5.1.2.	Subordinated loans	1,780,950
5.1.3.	Premium from capital instruments from the AC	0
5.2.	(-) Deductions from the AC	0
5.2.1.	(-) Investments in equity instruments of the AC	0
5.2.1.1.	(-) Direct investments in equity instruments of the AC	0
5.2.1.2.	(-) Indirect investments in equity instruments of the AC	0
5.2.1.3.	(-) Synthetic investments in equity instruments of the AC	0
5.2.1.4.	(-) Investments in equity instruments of the AC for which the bank has a contractual obligation to buy	0
5.2.2.	(-) direct, indirect and synthetic investments in AC positions of persons in the financial sector, whereby those entities have investments in the bank	0
5.2.3.	(-) direct, indirect and synthetic investments in DC positions of persons in the financial sector in which the bank does not have a significant investment	0
5.2.4.	(-) direct, indirect and synthetic investments in AC positions of persons in the financial sector in which the bank has a significant investment	0
5.3.	Regulatory compliance of AC	0
5.3.1.	(-) Increase of AC arising from securitization positions	0
5.3.2.	(-) Profits or (+) losses from cash flow hedge	0
5.3.3.	(-) Gains or (+) losses from bank's liabilities that are measured at fair value	0
5.3.4.	(-) Gains or (+) losses associated with liabilities based on derivatives that are measured at fair value	0
5.4.	Positions as a result of consolidation	0
5.4.1.	Acceptable additional capital that is recognized in the AC on a consolidated basis	0
5.4.2.	The rest	0
5.5.	Other positions of the AC	0

Translation of the Independent auditor's report and Financial statements published in Macedonian

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 4 Reporting by segments

#### A Operating segments

in MKD thousands

#### 2021 (current year)

	Retail banking	Commercial banking	Payment operations and settlement	All other insignificant operating segments	Unallocated	Total
Net interest income / (expense)	2,339,018	668,231	0	0	(1,065)	3,006,184
Net fee and commission income / (expense)	272,365	233,426	664,237	32,362	0	1,202,390
Net trading income	0	0	0	5,546	0	5,546
Net income from other financial instruments recorded at fair value	355	449	0	0	0	804
Other operating income	154,746	294,372	274,212	196,047	32,957	952,334
Income realized between segments	0	0	0	0	0	0
<b>Total income by segment</b>	<b>2,766,484</b>	<b>1,196,478</b>	<b>938,449</b>	<b>233,955</b>	<b>31,892</b>	<b>5,167,258</b>
Impairment on financial assets, net	(548,383)	(25,038)	(4,584)	184	1,309	(576,512)
Loss allowance of non-financial assets, net	0	0	0	0	(46,323)	(46,323)
Depreciation	0	0	0	0	(228,540)	(228,540)
Costs for restructuring	0	0	0	0	0	0
Expenses for investment in real estate and equipment	0	0	0	0	0	0
Other expenses	(151,978)	0	0	(768)	(1,717,959)	(1,870,705)
<b>Total expenses by segment</b>	<b>(700,361)</b>	<b>(25,038)</b>	<b>(4,584)</b>	<b>(584)</b>	<b>(1,991,513)</b>	<b>(2,722,080)</b>
Financial result by segment	2,066,123	1,171,440	933,865	233,371	(1,959,621)	<b>2,445,178</b>
Income tax expense						(226,071)
<b>Profit / (loss) for the financial year</b>						<b>2,219,107</b>
Total assets by segment	52,114,085	49,618,838	403,313	6,386		
Unallocated assets by segment					5,566,857	
<b>Total assets</b>						<b>107,709,479</b>
Total liabilities by segment	73,833,432	19,053,992	15,864	(52,936)		
Unallocated liabilities by segment					789,401	
<b>Total liabilities</b>						<b>93,639,753</b>

in MKD thousands

#### 2020 (previous year)

	Retail banking	Commercial banking	Payment operations and settlement	All other insignificant operating segments	Unallocated	Total
Net interest income / (expense)	2,254,884	659,364	0	0	(1,062)	2,913,186
Net fee and commission income / (expense)	235,645	184,593	669,527	33,127	0	1,122,892
Net trading income	0	0	0	(45,819)	0	(45,819)
Net income from other financial instruments recorded at fair value	9	451	0	0	0	460
Other operating income	341,605	175,793	(152,871)	114,850	35,597	514,974
Income realized between segments	0	0	0	0	0	0
<b>Total income by segment</b>	<b>2,832,143</b>	<b>1,020,201</b>	<b>516,656</b>	<b>102,158</b>	<b>34,535</b>	<b>4,505,693</b>
Impairment on financial assets, net	(435,859)	(234,621)	(4,297)	179	1,528	(673,070)
Loss allowance of non-financial assets, net	0	0	0	0	(47,426)	(47,426)
Depreciation	0	0	0	0	(195,992)	(195,992)
Costs for restructuring	0	0	0	0	0	0
Expenses for investment in real estate and equipment	0	0	0	0	0	0
Other expenses	(138,157)	0	0	(871)	(1,592,843)	(1,731,871)
<b>Total expenses by segment</b>	<b>(574,016)</b>	<b>(234,621)</b>	<b>(4,297)</b>	<b>(692)</b>	<b>(1,834,733)</b>	<b>(2,648,359)</b>
Financial result by segment	2,258,127	785,580	512,359	101,466	(1,800,198)	<b>1,857,334</b>
Income tax expense						(153,063)
<b>Profit / (loss) for the financial year</b>						<b>1,704,271</b>
Total assets by segment	46,041,258	44,516,869	419,410	(49,252)		
Unallocated assets by segment					5,616,928	
<b>Total assets</b>						<b>96,545,213</b>
Total liabilities by segment	66,994,481	15,498,220	10,217	(22,555)		
Unallocated liabilities by segment					652,005	
<b>Total liabilities</b>						<b>83,132,368</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**4 Reporting by segments**
**B Concentration of total income and expenses by significant clients**

	Operating segments (specify separately significant operating segments)								All other insignificant operating segments	Unallocated	Total by significant client
<i>in MKD thousands</i>											
<b>2021 (current year)</b> (the bank should separately report total income and total expense realized from significant client)											
Client 1											
income	0	0	0	0	0	0	0	0	0	0	0
(expense)	0	0	0	0	0	0	0	0	0	0	0
Client 2											
income	0	0	0	0	0	0	0	0	0	0	0
(expense)											
Client 3											
income	0	0	0	0	0	0	0	0	0	0	0
(expense)	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
<b>Total by segment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2020 (previous year)</b> (the bank should separately report total income and total expense realized from significant client)											
Client 1											
income	0	0	0	0	0	0	0	0	0	0	0
(expense)	0	0	0	0	0	0	0	0	0	0	0
Client 2											
income	0	0	0	0	0	0	0	0	0	0	0
(expense)											
Client 3											
income	0	0	0	0	0	0	0	0	0	0	0
(expense)	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
<b>Total by segment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**4 Reporting by segments**
**C Geographic areas**

	Republic of Macedonia	Member States of the European Union	Europe (other)	OECD member States (excluding European OECD Member States)	Other (specify separately significant geographical segments)		All other insignificant geographical segments	Unallocated	Total
<i>in MKD thousands</i>									
<b>2021 (current year)</b>									
Total income	4,982,612	110,723	59,440	13,933	0	0	550	0	<b>5,167,258</b>
Total assets	100,794,467	4,440,467	1,895,192	579,329	0	0	24	0	<b>107,709,479</b>
<b>2020 (previous year)</b>									
Total income	4,898,480	(352,578)	(22,434)	(18,712)	0	0	937	0	<b>4,505,693</b>
Total assets	91,045,210	3,427,210	1,567,698	505,071	0	0	24	0	<b>96,545,213</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**5 Fair value of financial assets and financial liabilities**
**A. Fair value of financial assets and liabilities**

	current year 2021		previous year 2020	
	carrying value	fair value	carrying value	fair value
<b>Financial assets</b>	<b>105,279,383</b>	<b>104,802,467</b>	<b>94,095,761</b>	<b>95,195,989</b>
Cash and cash equivalents	19,704,740	19,705,623	17,583,530	17,584,198
Trading assets	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0
Derivative assets held for risk management	804	804	460	460
Loans and advances to banks	678	678	502,407	502,398
Loans and advances to other customers	65,593,290	64,526,704	57,977,711	58,371,551
Investment securities	18,341,504	18,930,291	16,367,473	17,073,202
Investments in associates	0	0	0	0
Current income tax assets	0	0	30,924	30,924
Other assets	1,638,367	1,638,367	1,633,256	1,633,256
Pledged assets	0	0	0	0
Deferred tax assets	0	0	0	0
<b>Financial liabilities</b>	<b>93,341,274</b>	<b>93,126,873</b>	<b>82,877,401</b>	<b>82,865,390</b>
Trading liabilities	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0
Derivative liabilities held for risk management	0	0	0	0
Deposits from banks	357,762	357,762	345,177	345,177
Deposits from other customers	86,231,406	86,135,585	79,434,666	79,374,557
Issued debt securities	0	0	0	0
Borrowings	1,518,936	1,536,678	422,377	436,182
Subordinated liabilities	2,768,342	2,632,021	1,848,018	1,882,311
Current income tax liabilities	78,730	78,730	0	0
Deferred tax liabilities	0	0	0	0
Other liabilities	2,386,098	2,386,097	827,163	827,163

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**

(all amounts in MKD thousands unless otherwise stated)

**5 Fair value of financial assets and financial liabilities**
**B. Levels of fair value of financial assets and liabilities, measured at fair value**
**B.1 Levels of fair value of financial assets and liabilities, measured at fair value**

	in MKD thousands	Note	Level 1	Level 2	Level 3	Total
<b>31 December 2021 (current year)</b>						
<b>Financial assets measured at fair value</b>						
Trading assets		19	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition		20	0	0	0	0
Derivative assets held for risk management		21	0	804	0	804
Investment securities, available for sale		23.1	5,370,886	75,052	2,187	5,448,125
<b>Total</b>			<b>5,370,886</b>	<b>75,856</b>	<b>2,187</b>	<b>5,448,929</b>
<b>Financial liabilities measured at fair value</b>						
Trading liabilities		32	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition		33	0	0	0	0
Derivative liabilities held for risk management		21	0	0	0	0
<b>Total</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>31 December 2020 (previous year)</b>						
<b>Financial assets measured at fair value</b>						
Trading assets		19	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition		20	0	0	0	0
Derivative assets held for risk management		21	0	460	0	460
Investment securities, available for sale		23.1	3,649,434	0	22,945	3,672,379
<b>Total</b>			<b>3,649,434</b>	<b>460</b>	<b>22,945</b>	<b>3,672,839</b>
<b>Financial liabilities measured at fair value</b>						
Trading liabilities		32	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition		33	0	0	0	0
Derivative liabilities held for risk management		21	0	0	0	0
<b>Total</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 5 Fair value of financial assets and financial liabilities

### B.2. Transfers between level 1 and 2 at fair value

	current year 2021		previous year 2020	
	transfers from level 1 to level 2	transfers from level 2 to level 1	transfers from level 1 to level 2	transfers from level 2 to level 1
<i>in MKD thousands</i>				
<b>Financial assets measured at fair value</b>				
Trading assets	0	0	0	0
Financial assets at fair value through profit and loss, designated at initial recognition	0	0	0	0
Derivative assets held for risk management	0	0	0	0
Investment securities, available for sale	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financial liabilities measured at fair value</b>				
Trading liabilities	0	0	0	0
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0	0	0
Derivative liabilities held for risk management	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**5 Fair value of financial assets and financial liabilities**
**B.3. Reconciliation of movements throughout the year of fair values measured at level 3**

		Financial assets at fair value through profit and loss, designated at initial recognition	Investments securities, available for sale			Financial liabilities at fair value through profit and loss, designated at initial recognition	
	Trading assets			Total assets	Trading liabilities		Total liabilities
in MKD thousands							
Balance as at 1 January 2020 (previous year)	0	0	22,943	22,943	0	0	
Gains/(losses) recognized in:	0	0	0		0	0	
- Income statement	0	0	0	0	0	0	
	0	0	0		0	0	
- Other gains/(losses) in the period not recognized in the Income statement	0	0	2	2	0	0	
Purchases of financial instruments in the period	0	0	0	0	0	0	
	0	0	0		0	0	
Sold financial instruments in the period	0	0	0	0	0	0	
	0	0	0		0	0	
Issued financial instruments in the period	0	0	0	0	0	0	
Paid financial instruments in the period	0	0	0	0	0	0	
Reclassified financial instruments into/(from) level 3	0	0	0	0	0	0	
Reclassified in loans and receivables	0	0	0	0	0	0	
Balance as at 31 December 2020 (previous year)	0	0	22,945	22,945	0	0	
Total gains/(losses) recognized in the Income statement for financial assets and liabilities held as at 31 December 2020 (previous year)	0	0	0	0	0	0	
Balance as at 1 January 2021 (current year)	0	0	22,945	22,945	0	0	
Gains/(losses) recognized in:	0	0	0		0	0	
- Income statement	0	0	0	0	0	0	
	0	0	0		0	0	
- Other gains/(losses) in the period not recognized in the Income statement	0	0	1,584	1,584	0	0	
Purchases of financial instruments in the period	0	0	0	0	0	0	
	0	0	0		0	0	
Sold financial instruments in the period	0	0	0	0	0	0	
	0	0	0		0	0	
Issued financial instruments in the period	0	0	0	0	0	0	
Paid financial instruments in the period	0	0	0	0	0	0	
Reclassified financial instruments into/(from) level 3	0	0	(22,342)	(22,342)	0	0	
Reclassified in loans and receivables	0	0	0	0	0	0	
Balance as at 31 December 2021 (current year)	0	0	2,187	2,187	0	0	
Total gains/(losses) recognized in the Income statement for financial assets and liabilities held as at 31 December 2021 (current year)	0	0	0	0	0	0	



**6 Net interest income/(expenses)**
**A Structure of interest income and expense by type of financial instruments**

	in MKD thousands	
	current year 2021	previous year 2020
<b>Interest income</b>		
Cash and cash equivalents	28,922	60,140
Financial assets at fair value through profit and loss, designated at initial recognition	0	0
Derivative assets held for risk management	0	0
Loans and advances to banks	698	333
Loans and advances to other customers	2,927,365	3,012,946
Investment securities	274,158	206,799
Other assets	0	0
(Allowance for impairment of interest income, net)	(63,729)	(29,039)
Collected written-off interest	155,125	78,355
<b>Total interest income</b>	<b>3,322,539</b>	<b>3,329,534</b>
<b>Interest expenses</b>		
Financial liabilities at fair value through profit and loss, designated at initial recognition	0	0
Derivative liabilities held for risk management	0	0
Deposites from banks	26,162	22,705
Deposites from other customers	182,011	285,596
Issued debt securities	0	0
Borrowings	8,173	7,909
Subordinated debt	98,944	99,076
Other liabilities	1,065	1,062
<b>Total interest expenses</b>	<b>316,355</b>	<b>416,348</b>
<b>Net interest income/(expenses)</b>	<b>3,006,184</b>	<b>2,913,186</b>

**6 Net interest income/(expenses)**
**B Sector analysis of interest income and expenses**

<i>in MKD thousands</i>		
	current year 2021	previous year 2020
<b>Interest income</b>		
Enterprises	773,252	829,318
State	263,106	221,608
Non-profit institutions	499	752
Banks	29,554	59,840
Other financial organisations (non-banking)	3,174	5,008
Households	2,148,947	2,162,653
Non-residents	12,611	1,039
(Allowance for impairment of interest income, net)	(63,729)	(29,039)
Collected written-off interest	155,125	78,355
<b>Total interest income</b>	<b>3,322,539</b>	<b>3,329,534</b>
<b>Interest expenses</b>		
Enterprises	13,536	22,370
State	127	166
Non-profit institutions	2,130	3,663
Banks	132,800	128,284
Other financial organisations (non-banking)	1,002	2,965
Households	165,558	256,604
Non-residents	1,202	2,296
<b>Total interest expenses</b>	<b>316,355</b>	<b>416,348</b>
<b>Net interest income/(expenses)</b>	<b>3,006,184</b>	<b>2,913,186</b>

**7 Net fee and commission income/(expenses)**
**A Structure of fee and commission income and expense by type of financial activities**

<i>in MKD thousands</i>		
	current year 2021	previous year 2020
<b>Fee and commission income</b>		
Lending	266,710	238,348
Payment transactions		
domestic	678,412	571,628
foreign	206,599	183,219
Letters of credit and guarantees	86,544	83,610
Brokerage services	10,920	14,264
Asset management	0	0
Fiduciary activities	26,094	22,579
Issuing securities	0	0
Other		
transactions with traders	353,010	293,189
card settlement	241,154	182,786
card operations	104,066	62,528
transport of cash	41,987	42,106
insurance mediation	35,908	32,955
other	22,145	9,935
<b>Total fee and commission income</b>	<b>2,073,549</b>	<b>1,737,147</b>
<b>Fee and commission expenses</b>		
Lending	538	238
Payment transactions	0	0
domestic	105,544	87,598
foreign	89,165	68,257
Letters of credit and guarantees	0	0
Brokerage services	269	261
Asset management	0	0
Fiduciary activities	4,383	3,456
Issuing securities	0	0
Other		
card settlement	671,260	454,445
other	0	0
<b>Total fee and commission expenses</b>	<b>871,159</b>	<b>614,255</b>
<b>Net fee and commission income/(expenses)</b>	<b>1,202,390</b>	<b>1,122,892</b>

**NLB BANKA AD SKOPJE****Financial statement for the year ended 31 December 2021***(all amounts in MKD thousands unless otherwise stated)***7 Net fee and commission income/(expenses)****B Sector analysis of fee and commission income and expenses**

	in MKD thousands	
	current year 2021	previous year 2020
<b>Fee and commission income</b>		
Enterprises	1,067,146	921,285
State	7,844	5,592
Non-profit institutions	18,503	14,901
Banks	304,625	241,699
Other financial organisations (non-banking)	86,431	76,092
Households	530,532	434,987
Non-residents	58,468	42,591
<b>Total fee and commission income</b>	<b>2,073,549</b>	<b>1,737,147</b>
<b>Fee and commission expenses</b>		
Enterprises	134	4,357
State	0	206
Non-profit institutions	0	0
Banks	433,112	309,633
Other financial organisations (non-banking)	31,478	27,825
Non-residents	406,435	272,234
<b>Total fee and commission expenses</b>	<b>871,159</b>	<b>614,255</b>
<b>Net fee and commission income/(expenses)</b>	<b>1,202,390</b>	<b>1,122,892</b>

**8 Net trading income**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<i>Trading assets</i>	
Profit/(loss) from changes in fair value of debt securities, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of equity instruments, net	
realized	0
unrealized	0
Dividend income from trading assets	0
Interest income from trading assets	0
<i>Trading liabilities</i>	
Profit/(loss) from changes in fair value of debt securities, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of trading deposits, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of other financial trading liabilities, net	
realized	0
unrealized	0
Interest expenses for financial liabilities held for trading	0
<i>Profit/(loss) from changes in fair value of derivatives held for trading, net</i>	
realized	5,546
unrealized	(45,819)
<b>Net trading income</b>	<b>(45,819)</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**9 Net income from other financial instruments at fair value**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<i>Financial assets at fair value through profit and loss, designated at initial recognition</i>	
Profit/(loss) from changes in fair value of debt securities, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of equity instruments, net	
realized	0
unrealized	0
Dividend income from financial assets at fair value through profit and loss	0
Profit/(loss) from changes in fair value of loans and receivables at fair value through profit and loss, net	
realized	0
unrealized	0
<i>Financial liabilities at fair value through profit and loss, designated at initial recognition</i>	
Profit/(loss) from changes in fair value of debt securities, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of deposits at fair value through profit and loss, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of borrowings at fair value through profit and loss, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of other financial liabilities at fair value through profit and loss, net	
realized	0
unrealized	0
Profit/(loss) from changes in fair value of derivatives held for risk management at fair value through profit and loss, net	
realized	0
unrealized	804
<b>Net income from other financial instruments at fair value</b>	<b>460</b>

**10 Net income/(expenses) from exchange differences**

	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
Realized income/(expenses) from exchange differences, net	271,604	197,071
Unrealized income/(expenses) from exchange differences, net		
exchange differences on the impairment of financial assets, net	599	(3,968)
exchange differences on provisions for off-balance, net	22	(26)
other exchange differences, net	(8,573)	46,461
<b>Net income/(expenses) from exchange differences</b>	<b>263,652</b>	<b>239,538</b>

**NLB BANKA AD SKOPJE****Financial statement for the year ended 31 December 2021***(all amounts in MKD thousands unless otherwise stated)***11 Other operating income**

	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
Profit from the sale of assets available for sale	0	0
Dividends from equity instruments available for sale	1,057	4,264
Net income from investments in subsidiaries and associates	0	0
Capital gain from sales of:		
property and equipment	445	969
intangible assets	0	0
foreclosed assets	572	6,056
non-current assets held for sale	0	0
Rental income	20,927	20,311
Income from litigations	413	32
Collected written-off claims	650,801	232,341
Reversal provision for:		
contingent liabilities for litigations	0	0
pensions and other employee benefits	0	0
restructuring	0	0
unfavorable contracts	0	0
other provisions	0	0
Other		
other	14,467	11,463
<b>Total other operating income</b>	<b>688,682</b>	<b>275,436</b>



**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**12 Impairment on financial assets and provisions for off-balance, net**

	Loans and advances to banks	Loans and advances to other customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Claims for fees and commissions	Other assets	Total impairment of financial assets	Provisions for off-balance	Total
<i>in MKD thousands</i>										
<b>2021 (current year)</b>										
<b>Impairment and provisions</b>										
Additional impairment and provisions	2,004	732,272	120	0	15,451	11,677	26,774	788,298	47,662	835,960
(Reversal impairment and provisions)	(2,500)	(217,914)	0	0	(13,694)	(1,499)	(21,577)	(257,184)	(2,264)	(259,448)
<b>Total impairment of financial assets and provisions for off-balance, net</b>	<b>(496)</b>	<b>514,358</b>	<b>120</b>	<b>0</b>	<b>1,757</b>	<b>10,178</b>	<b>5,197</b>	<b>531,114</b>	<b>45,398</b>	<b>576,512</b>
<b>2020 (previous year)</b>										
<b>Impairment and provisions</b>										
Additional impairment and provisions	1,059	851,672	0	0	27,890	12,176	14,638	907,435	26,808	934,243
(Reversal impairment and provisions)	(538)	(207,370)	0	0	(18,603)	(2,461)	(8,974)	(237,946)	(23,227)	(261,173)
<b>Total impairment of financial assets and provisions for off-balance, net</b>	<b>521</b>	<b>644,302</b>	<b>0</b>	<b>0</b>	<b>9,287</b>	<b>9,715</b>	<b>5,664</b>	<b>669,489</b>	<b>3,581</b>	<b>673,070</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**13 Impairment of non-financial assets, net**

	Property and equipment	Intangible assets	Foreclosed assets	Non-current assets held for sale and disposal group	Other non-financial assets	Non-controlling interest*	Total
<i>in MKD thousands</i>							
<b>2021 (current year)</b>							
Additional impairment	17,367	0	29,143	0	0	0	46,510
(Reversal impairment)	0	0		0	(187)	0	(187)
<b>Total impairment of non-financial assets, net</b>	<b>17,367</b>	<b>0</b>	<b>29,143</b>	<b>0</b>	<b>(187)</b>	<b>0</b>	<b>46,323</b>
<b>2020 (previous year)</b>							
Additional impairment	0	0	50,790	0	0	0	50,790
(Reversal impairment)	0	0		0	(3,364)	0	(3,364)
<b>Total impairment of non-financial assets, net</b>	<b>0</b>	<b>0</b>	<b>50,790</b>	<b>0</b>	<b>(3,364)</b>	<b>0</b>	<b>47,426</b>

\* only for consolidated financial statements

**14 Personnel expenses**
**Short-term employee benefits**

Salaries	530,042	488,661
Compulsory social and health insurance contributions	194,570	196,513
Paid short-term leave	75,932	78,958
Temporary employment costs	0	0
Share of profits and rewards	15,777	7,101
Non-monetary benefits	0	0
	<b>816,321</b>	<b>771,233</b>

**Benefits after termination of employment**

Contributions to defined pension plans	24,658	21,474
Retirement benefits	0	0
Increase of the liabilities for defined-benefit pension plans	0	0
Increase of the liabilities for other long-term benefits	2,797	3,175
Other benefits on termination of employment	0	0
	<b>27,455</b>	<b>24,649</b>

**Benefits for termination of employment**

Share-based payments to employees, settled in equity instrument	0	0
Share-based payments to employees, settled in cash	0	0
Other	52,984	49,706

**Total personnel expenses**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
530,042	488,661
194,570	196,513
75,932	78,958
0	0
15,777	7,101
0	0
<b>816,321</b>	<b>771,233</b>
24,658	21,474
0	0
0	0
2,797	3,175
0	0
<b>27,455</b>	<b>24,649</b>
0	0
0	0
52,984	49,706
<b>896,760</b>	<b>845,588</b>

**15 Depreciation**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
Depreciation of intangible assets	
Internally developed software	0
Purchased software from external suppliers	38,735
Other internally developed intangible assets	0
Other intangible assets	25,507
Investments in leased intangible assets	2,890
	67,132
Depreciation of property and equipment	
Buildings	53,235
Vehicles	5,066
Furniture and office equipment	33,765
Other equipment	30,886
Other items of property and equipment	891
Investments in leased property and equipment	5,017
	128,860
<b>Total depreciation</b>	<b>195,992</b>

**16 Other operating expenses**

	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
Loss from sale of assets available for sale	0	0
Software licensing costs	0	0
Deposit insurance premiums	149,118	136,619
Premiums for insurance of property and employees	23,112	17,181
Materials and services	522,350	465,439
Administrative and marketing costs	130,768	133,059
Other taxes and contributions	18,464	13,998
Costs for rents	103,389	95,242
Costs for litigations	4,838	2,120
Provisions for pension and other benefits for employees, net	0	0
Provisions for contingent liabilities for litigations, net	2,390	0
Other provisions, net		
	0	0
	0	0
	0	0
Loss from sales of:		
property and equipment	0	0
intangible assets	0	0
foreclosed assets	29	0
non-current assets held for sale	0	0
Other		
other	19,487	22,625
<b>Total other operating expenses</b>	<b>973,945</b>	<b>886,283</b>

**17 Income tax expenses**
**A Expenses/income for current and deferred tax**
**Current income tax**

Expenses/(income) for current income tax for the year  
 Corrections for previous years  
 Benefits from previously unrecognized tax losses, tax credits or temporary differences from previous years  
 Changes in accounting policies and mistakes  
 Other

**Deferred income tax**

Deferred income tax arising from temporary differences for the year  
 Recognition of previously unrecognized tax losses  
 Changes in the tax rate  
 Introducing new taxes  
 Benefits from previously unrecognized tax losses, tax credits or temporary differences from previous years  
 Other

**Total expenses/(return) of income tax**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
226,071	153,063
0	0
0	0
0	0
0	0
0	0
<b>226,071</b>	<b>153,063</b>
0	0
0	0
0	0
0	0
0	0
0	0
0	0
<b>226,071</b>	<b>153,063</b>

**Current income tax**

Recognized in Income statement  
 Recognized in Equity and reserves

**Deferred income tax**

Recognized in Income statement  
 Recognized in Equity and reserves

**Total expenses/(return) of income tax**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
226,071	153,063
0	0
<b>226,071</b>	<b>153,063</b>
0	0
0	0
0	0
<b>226,071</b>	<b>153,063</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**17 Income tax expenses**
**B Adjustment of the average effective tax rate and the applicable tax rate**

	<i>in %</i>	<i>in MKD thousands</i>	<i>in %</i>	<i>in MKD thousands</i>
	current year 2021		previous year 2020	
Profit/(loss) before tax	100.00%	2,445,178	100.00%	1,857,334
Income tax according to the applicable tax rate	108.16%	244,518	121.34%	185,733
Effect of different tax rates in other countries	0.00%	0	0.00%	0
Corrections for previous years and changes in the tax rate	0.00%	0	0.00%	0
Taxable income abroad	0.00%	0	0.00%	0
Expenses not recognized for tax purposes	5.40%	12,211	6.96%	10,652
Tax-free income	-5.51%	(12,458)	-11.32%	(17,325)
Tax release not recognized in the Income statement	0.00%	0	0.00%	0
Recognition of previously unrecognized tax losses	0.00%	0	0.00%	0
Benefits from previously unrecognized tax losses, tax credits or temporary differences from previous years	0.00%	0	0.00%	0
Changes in deferred tax	0.00%	0	0.00%	0
Other	-8.05%	(18,200)	-16.98%	(25,997)
<b>Total expenses/(return) of income tax</b>	<b>0</b>	<b>226,071</b>	<b>0</b>	<b>153,063</b>
<b>Average effective tax rate</b>	<b>9.25%</b>		<b>8.24%</b>	

**C Income tax on other gains/(losses) in the period not recognized in the Income statement**

	current year 2021			previous year 2020		
<i>in MKD thousands</i>	before tax	(expense) / return of income tax	after income tax	before tax	(expense) / return of income tax	after income tax
Revaluation reserve for assets available for sale	0	0	0	0	0	0
Reserve for instruments for protection against the risk of cash flows	0	0	0	0	0	0
Reserve for instruments for protection against the risk of net-investment in foreign operations	0	0	0	0	0	0
Foreign exchange reserves from foreign investments	0	0	0	0	0	0
Share in other gains/(losses) of associates not reported in the Income statement	0	0	0	0	0	0
Other gains/(losses) not reported in the Income statement	0	0	0	0	0	0
<b>Total other gains/(losses) in the period not reported in the Income statement</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**

(all amounts in MKD thousands unless otherwise stated)

**18 Cash and cash equivalents**

	in MKD thousands	
	current year 2021	previous year 2020
Cash	3,204,741	3,049,931
Account and deposits in NBRM, except mandatory deposits in foreign currency	5,262,158	4,454,029
Current accounts and transactional deposits in foreign banks	3,033,591	2,607,321
Current accounts and transactional deposits in domestic banks	0	18
Treasury bills tradable on the secondary market	1,725,827	1,692,983
Government bills tradable on the secondary market	0	0
Time deposits with maturity up to three months	2,741,814	2,468,766
Other short-term highly liquid assets	647	666
Claims for interest	(131)	(190)
(Allowance for impairment)	(13,105)	(10,878)
<b>Included in cash and cash equivalents for the purposes of the Statement of cash flow</b>	<b>15,955,542</b>	<b>14,262,646</b>
Mandatory reserves in foreign currency	3,378,366	2,877,874
Restricted deposits	372,137	444,217
(Allowance for impairment)	(1,305)	(1,207)
<b>Total</b>	<b>19,704,740</b>	<b>17,583,530</b>

	current year 2021				previous year 2020			
	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment
<b>Movement of impairment</b>								
Balance as at 1 January	12,072	13	0	12,085	3,339	13	0	3,352
Allowance for impairment for the year								
additional impairment	75,038	3	0	75,041	67,819	0	0	67,819
(reversal impairment)	(73,284)	0	0	(73,284)	(58,532)	0	0	(58,532)
Transfer to:								
- impairment for Stage 1	(11)	11	0		0	0	0	
- impairment for Stage 2	14	(14)	0		0	0	0	
- impairment for Stage 3	0	0	0		0	0	0	
(Foreclosed assets)	0	0	0	0	0	0	0	0
Effect of exchange differences	568	0	0	568	(554)	0	0	(554)
(Write-offs)	0	0	0	0	0	0	0	0
<b>Balance as at 31 December</b>	<b>14,397</b>	<b>13</b>	<b>0</b>	<b>14,410</b>	<b>12,072</b>	<b>13</b>	<b>0</b>	<b>12,085</b>



**19 Trading assets**
**Structure of trading assets by the type of financial instrument**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<b>Trading securities</b>	
<i>Debt securities for trading</i>	
Treasury bills for trading	0
Government bills for trading	0
Other instruments on money market	0
Bonds issued by the state	0
Corporate bonds	0
Other debt instruments	0
	0
Listed	0
Unlisted	0
<i>Equity securities for trading</i>	
Equity instruments issued by banks	0
Other equity instruments	0
	0
Listed	0
Unlisted	0
<b>Derivatives for trading</b>	
Contracts dependent on the change of the interest rate	0
Contracts dependent on the change of the exchange rate	0
Contracts dependent on the change of the price of securities	0
Other contracts meeting the criteria of IFRS 9	0
<b>Loans and advances</b>	
Loans and advances to banks	0
Loans and advances to other customers	0
	0
<b>Total trading assets</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**20 Financial assets at fair value through profit and loss, designated at initial recognition**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<i>Debt securities</i>	
Treasury bills	0
Government bills	0
Other instruments on money market	0
Bonds issued by the state	0
Corporate bonds	0
Other debt instruments	0
	0
Listed	0
Unlisted	0
<i>Equity securities</i>	
Equity instruments issued by banks	0
Other equity instruments	0
	0
Listed	0
Unlisted	0
Loans and advances to banks	0
Loans and advances to other customers	0
<b>Total financial assets at fair value through profit and loss, designated at initial recognition</b>	<b>0</b>

## 21 Derivative assets and liabilities held for risk management

**Total derivatives held for risk management**

in MKD thousands			
current year 2021		previous year 2020	
derivative assets	(derivative liabilities)	derivative assets	(derivative liabilities)
0	0	0	0
804	0	460	0
0	0	0	0
0	0	0	0
<b>804</b>	<b>0</b>	<b>460</b>	<b>0</b>
0	0	0	0
0	0	0	0
0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>804</b>	<b>0</b>	<b>460</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**22 Loans and advances**
**22.1 Loans and advances to banks**

<i>in MKD thousands</i>				
current year 2021		previous year 2020		
short term	long term	short term	long term	
Loans to banks				
domestic banks	471	2	130	0
foreign banks	0	0	0	0
Time deposits, with maturity over three months				
domestic banks	0	0	0	0
foreign banks	0	0	502,354	0
Repo				
domestic banks	0	0	0	0
foreign banks	0	0	0	0
Other claims				
domestic banks	0	0	0	0
foreign banks	315	0	315	0
Claims for interest	0	0	205	0
Current maturity	2	(2)	0	0
<b>Total loans and advances to banks before impairment</b>	<b>788</b>	<b>0</b>	<b>503,004</b>	<b>0</b>
(Allowance for impairment)	(110)	0	(601)	0
<b>Total loans and advances to banks less impairment</b>	<b>678</b>	<b>0</b>	<b>502,403</b>	<b>0</b>

current year 2021					previous year 2020			
Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment		Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment
Balance as at 1 January	507	0	94	601	12	0	94	106
Allowance for impairment for the year								
additional impairment	2,524	2	0	2,526	1,112	1	0	1,113
(reversal impairment)	(3,017)	(5)	0	(3,022)	(590)	(2)	0	(592)
Transfer to:								
- impairment for Stage 1	(4)	4	0	0	(1)	0	0	0
- impairment for Stage 2	0	0	0	0	0	1	0	0
- impairment for Stage 3	0	0	0	0	0	0	0	0
(Foreclosed assets)	0	0	0	0	0	0	0	0
Effect of exchange differences	5	0	0	5	(26)	0	0	(26)
(Write-offs)	0	0	0	0	0	0	0	0
<b>Balance as at 31 December</b>	<b>15</b>	<b>1</b>	<b>94</b>	<b>110</b>	<b>507</b>	<b>0</b>	<b>94</b>	<b>601</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 22 Loans and advances

#### 22.2 Loans and advances to other customers

#### A Structure of loans and advances to other customers by the type of debtor

in MKD thousands				
current year 2021		previous year 2020		
short term	long term	short term	long term	
Enterprises				
claims for principal	10,207,738	17,114,852	8,887,358	15,039,732
claims for interest	68,049	0	102,417	0
State				
claims for principal	27	239	21	59,017
claims for interest	2	0	354	0
Non-profit institutions				
claims for principal	2,093	10,112	3,946	15,056
claims for interest	42	0	29	0
Financial organisations, except banks				
claims for principal	27,356	77,060	4,741	105,365
claims for interest	344	0	539	0
Households				
claims for principal				
loans for houses	17,849	16,044,059	93,221	13,562,575
consumer loans	444,925	22,588,398	336,619	20,317,381
vehicle loans	866	96,827	1,081	122,640
mortgage loans	0	0	0	0
credit cards	756,537	1,553,225	777,944	1,662,631
other loans	1,133,538	177,444	1,025,979	137,520
claims for interest	472,275	0	626,213	0
Non-residents, except banks				
claims for principal	3	7,920	21	8,120
claims for interest	10	0	10	0
Current maturity	9,207,867	(9,207,867)	9,135,037	(9,135,037)
<b>Total loans and advances to other customers before impairment</b>	<b>22,339,521</b>	<b>48,462,269</b>	<b>20,995,530</b>	<b>41,895,000</b>
(Allowance for impairment)	(3,335,332)	(1,873,168)	(3,112,624)	(1,800,195)
<b>Total loans and advances to other customers less impairment</b>	<b>19,004,189</b>	<b>46,589,101</b>	<b>17,882,906</b>	<b>40,094,805</b>

		current year 2021				previous year 2020			
		Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment
in MKD thousands									
<b>Movement of impairment</b>									
Balance as at 1 January		745,435	2,272,100	1,895,284	4,912,819	619,074	2,387,570	1,860,963	4,867,607
Allowance for impairment for the year									
additional impairment		774,100	2,226,316	1,253,476	4,253,892	692,536	1,992,181	778,841	3,463,558
(reversal impairment)		(1,163,979)	(1,532,068)	(1,043,487)	(3,739,534)	(908,455)	(1,523,719)	(387,082)	(2,819,256)
Transfer to:		0	0	0	0	0	0	0	0
- impairment for Stage 1		(180,011)	178,445	1,567	1	341,490	0	0	0
- impairment for Stage 2		574,602	(1,098,138)	523,536	0	0	(586,007)	0	0
- impairment for Stage 3		75,740	126,705	(202,446)	(1)	0	0	244,517	0
(Foreclosed assets)		0	0	0	0	0	0	0	0
Effect of exchange differences		(328)	(340)	(509)	(1,177)	790	2,075	1,682	4,547
(Write-offs)		0	0	(217,500)	(217,500)	0	0	(603,637)	(603,637)
<b>Balance as at 31 December</b>		<b>825,559</b>	<b>2,173,020</b>	<b>2,209,921</b>	<b>5,208,500</b>	<b>745,435</b>	<b>2,272,100</b>	<b>1,895,284</b>	<b>4,912,819</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**22 Loans and advances**
**22.2 Loans and advances to other customers**
**B Structure of loans and advances to other customers by the type of collateral**

in MKD thousands		
	current year 2021	previous year 2020
(carrying amount of loans and advances)		
First-class collateral instruments		
cash deposits (in a depot and/or restricted on accounts in the bank)	1,022,696	1,030,085
government securities	0	0
government unconditional guarantees	0	0
bank guarantees	0	0
Guarantees by insurance companies and insurance policies	0	0
Corporate guarantees (except banking and insurance companies)	6,518	27,259
Guarantees from citizens	0	0
Pledged real estate		
property for personal use (apartments, houses)	12,443,285	10,737,722
property for business	9,195,532	8,378,684
Pledged movable property	1,846,271	1,792,914
Other types of collateral	4,567,890	3,585,768
Without collateral	36,511,098	32,425,279
<b>Total loans and advances to other customers less impairment</b>	<b>65,593,290</b>	<b>57,977,711</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**

(all amounts in MKD thousands unless otherwise stated)

**23 Investments securities**
**23.1 Investments in financial assets available for sale**
**Structure of investments in financial assets available for sale by type of financial instrument**

in MKD thousands	
	current year 2021
	previous year 2020
<b>Debt securities</b>	
Treasury bills	0
Government bills	585,984
Other instruments on money market	0
Bonds issued by the state	4,737,106
Corporate bonds	0
Other debt instruments	0
	5,323,090
	3,639,456
Listed	5,323,090
Unlisted	0
<b>Equity securities</b>	
Equity instruments issued by banks	0
Other equity instruments	125,035
	125,035
	32,923
Listed	0
Unlisted	125,035
	0
	32,923
<b>Total investments in financial instruments available for sale</b>	<b>5,448,125</b>
	<b>3,672,379</b>

The Bank assesses and measures the expected credit losses for investments in debt securities in this category. The impairment loss for this category is shown in "Revaluation reserve for available-for-sale".

		current year 2021				previous year 2020			
in MKD thousands		Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment
<b>Movement of impairment</b>									
Balance as at 1 January	0	0	0	0	0	0	0	0	0
Allowance for impairment for the year	0	0	0	0		0	0	0	
additional impairment	120	0	0	0	120	0	0	0	0
(reversal impairment)	0	0	0	0	0	0	0	0	0
Transfer to:	0	0	0	0		0	0	0	
- impairment for Stage 1	0	0	0	0		0	0	0	
- impairment for Stage 2	0	0	0	0		0	0	0	
- impairment for Stage 3	0	0	0	0		0	0	0	
(Foreclosed assets)	0	0	0	0	0	0	0	0	0
Effect of exchange differences	0	0	0	0	0	0	0	0	0
(Write-offs)	0	0	0	0	0	0	0	0	0
<b>Balance as at 31 December</b>	<b>120</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>120</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**

(all amounts in MKD thousands unless otherwise stated)

**23 Investments securities**
**23.2 Investments in financial assets held to maturity**

	in MKD thousands	
	current year 2021	previous year 2020
<i>Debt securities</i>		
Treasury bills	0	0
Government bills	597,247	1,397,415
Other instruments on money market	0	0
Bonds issued by the state	12,296,132	11,297,679
Corporate bonds	0	0
Other debt instruments	0	0
	12,893,379	12,695,094
Listed	683,895	0
Unlisted	12,209,484	12,695,094
<b>Total investments in financial instruments held to maturity before impairment</b>	12,893,379	12,695,094
(Allowance for impairment)	0	0
<b>Total investments in financial instruments held to maturity less impairment</b>	12,893,379	12,695,094

	current year 2021				previous year 2020			
in MKD thousands	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment
<b>Movement of impairment</b>								
Balance as at 1 January				0				0
Allowance for impairment for the year								
additional impairment				0				0
(reversal impairment)				0				0
Transfer to:								
- impairment for Stage 1								
- impairment for Stage 2								
- impairment for Stage 3								
(Foreclosed assets)				0				0
Effect of exchange differences				0				0
(Write-offs)				0				0
<b>Balance as at 31 December</b>				0				0



**NLB BANKA AD SKOPJE****Financial statement for the year ended 31 December 2021***(all amounts in MKD thousands unless otherwise stated)***24 Investments in subsidiaries and associates****A Percentage of the bank's participation in subsidiaries and associates**

Name of subsidiaries and associates	State	in %			
		Percentage of participation in equity		Percentage of voting right	
		current year 2021	previous year 2020	current year 2021	previous year 2020

**B Financial information of associates - 100 percent**

Name of associates	in MKD thousands				
	Total assets	Total liabilities	Total capital and reserves	Income	Profit/(loss) for the financial year
current year 2021					
	0	0	0	0	0
previous year 2020					
	0	0	0	0	0

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**25 Other assets**

	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
Debtors	25,852	17,028
Advance paid expenses	23,428	17,083
Deferred income	0	0
Commission claims	86,599	89,898
Claims to employees	3,724	3,648
Advances for intangible assets	2,370	2,326
Advances for property and equipment	4,518	257
Other		
account for short-term settlement of credit card operations	188,698	226,243
pre-paid pensions	1,200,195	1,149,618
claims from card operations with no limit	78,703	71,793
inventory of material	21,222	25,581
other claims	45,927	77,224
<b>Total other assets before impairment</b>	<b>1,681,236</b>	<b>1,680,699</b>
(Allowance for impairment)	(42,869)	(47,443)
<b>Total other assets less impairment</b>	<b>1,638,367</b>	<b>1,633,256</b>

	current year 2021				previous year 2020			
	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment	Impairment for Stage 1	Impairment for Stage 2	Impairment for Stage 3	Total impairment
<b>Movement of impairment</b>								
Balance as at 1 January	8,681	5,472	33,290	47,443	7,880	5,186	48,663	61,729
Allowance for impairment for the year								
additional impairment	16,236	25,482	30,410	72,128	15,952	11,491	23,024	50,467
(reversal impairment)	(35,193)	(8,217)	(13,343)	(56,753)	(17,991)	(10,374)	(6,723)	(35,088)
Transfer to:	0	0	0	0	0	0	0	0
- impairment for Stage 1	(689)	687	2	0	2,841	0	0	0
- impairment for Stage 2	15,050	(20,018)	4,968	0	0	24	0	0
- impairment for Stage 3	3,009	1,613	(4,622)	0	0	0	(2,865)	0
(Foreclosed assets)	0	0	0	0	0	0	0	0
Effect of exchange differences	7	0	(2)	5	1	0	0	1
(Write-offs)	(5)	(337)	(19,612)	(19,954)	(2)	(855)	(28,809)	(29,666)
<b>Balance as at 31 December</b>	<b>7,096</b>	<b>4,682</b>	<b>31,091</b>	<b>42,869</b>	<b>8,681</b>	<b>5,472</b>	<b>33,290</b>	<b>47,443</b>

**NLB BANKA AD SKOPJE****Financial statement for the year ended 31 December 2021***(all amounts in MKD thousands unless otherwise stated)***26 Pledged assets**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
Debt securities	0
Equity securities	0
Loans and advances to banks	0
Loans and advances to other customers	0
Other assets	0
<b>Total pledged assets</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**27 Foreclosed assets**

	Land	Buildings	Equipment	Residential buildings and apartments	Other	Total
<i>in MKD thousands</i>						
<b>Opening carrying amount</b>						
Balance as at 1 January 2020 (previous year)	0	218,698	42,563	47,287	6,259	314,807
foreclosed during the year	0	0	0	0	0	0
(disposals during the year)	0	0	(4,205)	0	(5,005)	(9,210)
(transfer in property)	0	0	0	0	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>218,698</b>	<b>38,358</b>	<b>47,287</b>	<b>1,254</b>	<b>305,597</b>
Balance as at 1 January 2021 (current year)	0	218,698	38,358	47,287	1,254	305,597
foreclosed during the year	94	99	37	0	0	230
(disposals during the year)	0	(1,688)	0	0	(234)	(1,922)
(transfer in property)	0	0	0	0	0	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>94</b>	<b>217,109</b>	<b>38,395</b>	<b>47,287</b>	<b>1,020</b>	<b>303,905</b>
<b>Depreciation</b>						
Balance as at 1 January 2020 (previous year)	0	72,211	9,243	34,165	6,023	121,642
impairment loss during the year	0	33,066	6,175	11,463	86	50,790
(disposals during the year)	0	0	(1,025)	0	(5,005)	(6,030)
(transfer in property)	0	0	0	0	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>105,277</b>	<b>14,393</b>	<b>45,628</b>	<b>1,104</b>	<b>166,402</b>
Balance as at 1 January 2021 (current year)	0	105,277	14,393	45,628	1,104	166,402
impairment loss during the year	19	22,704	4,807	1,659	0	29,189
(disposals during the year)	0	(1,688)	0	0	(84)	(1,772)
(transfer in property)	0	0	0	0	0	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>19</b>	<b>126,293</b>	<b>19,200</b>	<b>47,287</b>	<b>1,020</b>	<b>193,819</b>
<b>Current carrying amount</b>						
as at 1 January 2020 (previous year)	0	146,487	33,320	13,122	236	193,165
<b>as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>113,421</b>	<b>23,965</b>	<b>1,659</b>	<b>150</b>	<b>139,195</b>
<b>as at 31 December 2021 (current year)</b>	<b>75</b>	<b>90,816</b>	<b>19,195</b>	<b>0</b>	<b>0</b>	<b>110,086</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**28 Intangible assets**
**A Adjustment of current carrying amount**

	Internally developed software	Purchased software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in course of construction	Investments in leased intangible assets	Non-controlling interest*	Total
<i>in MKD thousands</i>								
<b>At cost</b>								
Balance as at 1 January 2020 (previous year)	0	389,439	0	228,015	59,578	12,454	0	689,486
increase by new purchases	0	14,377	0	41,307	76,616	6,366	0	138,666
increase by internal development	0	0	0	0	0	0	0	0
increase by business combinations	0	0	0	0	0	0	0	0
(disposals)	0	0	0	0	0	0	0	0
(disposals by business combinations)	0	0	0	0	0	0	0	0
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0
other transfers	0	72,616	0	0	(72,616)	0	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>476,432</b>	<b>0</b>	<b>269,322</b>	<b>63,578</b>	<b>18,820</b>	<b>0</b>	<b>828,152</b>
Balance as at 1 January 2021 (current year)	0	476,432	0	269,322	63,578	18,820	0	828,152
increase by new purchases	0	52,411	0	37,324	24,377	3,995	0	118,107
increase by internal development	0	0	0	0	0	0	0	0
increase by business combinations	0	0	0	0	0	0	0	0
(disposals)	0	0	0	0	0	0	0	0
(disposals by business combinations)	0	0	0	0	0	0	0	0
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0
other transfers	0	77,332	0	2,312	(79,644)	0	0	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>0</b>	<b>606,175</b>	<b>0</b>	<b>308,958</b>	<b>8,311</b>	<b>22,815</b>	<b>0</b>	<b>946,259</b>
<b>Amortisation and depreciation</b>								
Balance as at 1 January 2020 (previous year)	0	300,713	0	177,334	0	4,819	0	482,866
amortisation for the year	0	38,735	0	25,507	0	2,890	0	67,132
impairment loss during the year	0	0	0	0	0	0	0	0
(reversal impairment during the year)	0	0	0	0	0	0	0	0
(disposals)	0	0	0	0	0	0	0	0
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>339,448</b>	<b>0</b>	<b>202,841</b>	<b>0</b>	<b>7,709</b>	<b>0</b>	<b>549,998</b>
Balance as at 1 January 2021 (current year)	0	339,448	0	202,841	0	7,709	0	549,998
amortisation for the year	0	53,719	0	26,348	0	3,747	0	83,814
impairment loss during the year	0	0	0	0	0	0	0	0
(reversal impairment during the year)	0	0	0	0	0	0	0	0
(disposals)	0	0	0	0	0	0	0	0
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>0</b>	<b>393,167</b>	<b>0</b>	<b>229,189</b>	<b>0</b>	<b>11,456</b>	<b>0</b>	<b>633,812</b>
<b>Current carrying amount</b>								
as at 1 January 2020 (previous year)	0	88,726	0	50,681	59,578	7,635	0	206,620
<b>as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>136,984</b>	<b>0</b>	<b>66,481</b>	<b>63,578</b>	<b>11,111</b>	<b>0</b>	<b>278,154</b>
<b>as at 31 December 2021 (current year)</b>	<b>0</b>	<b>213,008</b>	<b>0</b>	<b>79,769</b>	<b>8,311</b>	<b>11,359</b>	<b>0</b>	<b>312,447</b>

\* only for consolidated financial statements

**NLB BANKA AD SKOPJE****Financial statement for the year ended 31 December 2021***(all amounts in MKD thousands unless otherwise stated)***28 Intangible assets****B Carrying amount of intangible assets where there is a restriction of ownership and/or are pledged as collateral for the obligations of the bank**

	<i>in MKD thousand</i>					
	Internally developed software	Purchased software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in course of construction	Investments in leased intangible assets
Current carrying amount:						
as at 31 December 2020 (previous year)	0	0	0	0	0	0
as at 31 December 2021 (current year)	0	0	0	0	0	0

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**29 Property and equipment**
**A Adjustment of current carrying amount**

<i>in MKD thousands</i>	Land	Buildings	Motor vehicles	Furniture and office equipment	Other equipment	Other items on property and equipment	Property and equipment in course of construction	Investments in leased property and equipment	Total
<b>At cost</b>									
Balance as at 1 January 2020 (previous year)	145,639	2,135,073	116,370	622,239	580,090	16,622	284	75,614	3,691,931
increases	0	2,061	17,790	51,332	34,223	633	34,558	16,503	157,100
increases by business combinations	0	0	0	0	0	0	0	0	0
(disposals)	0	0	(8,406)	(2,333)	(3,312)	0	0	0	(14,051)
(disposals by business combinations)	0	0	0	0	0	0	0	0	0
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0	0
other transfers	0	0	0	245	24,965	0	(25,210)	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>145,639</b>	<b>2,137,134</b>	<b>125,754</b>	<b>671,483</b>	<b>635,966</b>	<b>17,255</b>	<b>9,632</b>	<b>92,117</b>	<b>3,834,980</b>
Balance as at 1 January 2021 (current year)	145,639	2,137,134	125,754	671,483	635,966	17,255	9,632	92,117	3,834,980
increases	0	7,628	0	45,146	49,641	1,898	16,325	16,915	137,553
increases by business combinations	0	0	0	0	0	0	0	0	0
(disposals)	0	0	0	(67,975)	0	0	0	0	(67,975)
(disposals by business combinations)	0	0	0	0	0	0	0	0	0
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0	0
other transfers	0	39	0	0	10,105	0	(11,515)	1,371	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>145,639</b>	<b>2,144,801</b>	<b>125,754</b>	<b>648,654</b>	<b>695,712</b>	<b>19,153</b>	<b>14,442</b>	<b>110,403</b>	<b>3,904,558</b>
<b>Amortisation and depreciation</b>									
Balance as at 1 January 2020 (previous year)	0	502,222	93,921	536,298	480,879	8,568	0	65,993	1,687,881
amortisation for the year	0	53,235	5,066	33,765	30,886	891	0	5,017	128,860
impairment loss during the year	0	0	0	0	0	0	0	0	0
(reversal impairment during the year)	0	0	0	0	0	0	0	0	0
(disposals)	0	0	(8,223)	(2,333)	(3,312)	0	0	0	(13,868)
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0	0
other transfers	0	0	0	0	0	0	0	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>555,457</b>	<b>90,764</b>	<b>567,730</b>	<b>508,453</b>	<b>9,459</b>	<b>0</b>	<b>71,010</b>	<b>1,802,873</b>
Balance as at 1 January 2021 (current year)	0	555,457	90,764	567,730	508,453	9,459	0	71,010	1,802,873
amortisation for the year	0	53,277	6,105	36,641	40,561	963	0	7,179	144,726
impairment loss during the year	0	17,367	0	0	0	0	0	0	17,367
(reversal impairment during the year)	0	0	0	0	0	0	0	0	0
(disposals)	0	0	0	(67,971)	0	0	0	0	(67,971)
(transfer to non-current assets held for sale)	0	0	0	0	0	0	0	0	0
transfer from non-current assets held for sale	0	0	0	0	0	0	0	0	0
other transfers	0	0	0	0	0	0	0	0	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>0</b>	<b>626,101</b>	<b>96,869</b>	<b>536,400</b>	<b>549,014</b>	<b>10,422</b>	<b>0</b>	<b>78,189</b>	<b>1,896,995</b>
<b>Current carrying amount</b>									
as at 1 January 2020 (previous year)	145,639	1,632,851	22,449	85,941	99,211	8,054	284	9,621	2,004,050
<b>as at 31 December 2020 (previous year)</b>	<b>145,639</b>	<b>1,581,677</b>	<b>34,990</b>	<b>103,753</b>	<b>127,513</b>	<b>7,796</b>	<b>9,632</b>	<b>21,107</b>	<b>2,032,107</b>
<b>as at 31 December 2021 (current year)</b>	<b>145,639</b>	<b>1,518,700</b>	<b>28,885</b>	<b>112,254</b>	<b>146,698</b>	<b>8,731</b>	<b>14,442</b>	<b>32,214</b>	<b>2,007,563</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**29 Property and equipment**
**B Carrying amount of property and equipment where there is a restriction of ownership and/or are pledged as collateral for the obligations of the bank**

	<i>in MKD thousands</i>	Land	Buildings	Motor vehicles	Furniture and office equipment	Other equipment	Other items on property and equipment	Property and equipment in course of construction	Investments in leased property and equipment	Total
Current carrying amount:										
as at 31 December 2020 (previous year)		0	0	0	0	0	0	0	0	0
as at 31 December 2021 (current year)		0	0	0	0	0	0	0	0	0



**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**

(all amounts in MKD thousands unless otherwise stated)

**30 Current and deferred tax assets and liabilities**
**30.1 Current tax assets and current tax liabilities**

Income tax assets (current)  
Income tax liabilities (current)

in MKD thousands	
current year 2021	previous year 2020
0	30,924
78,730	0

**30.2 Deferred tax assets and deferred tax liabilities**
**A Recognized deferred tax assets and deferred tax liabilities**

in MKD thousands	current year 2021			previous year 2020		
	Deferred tax assets	(Deferred tax liabilities)	Net	Deferred tax assets	(Deferred tax liabilities)	Net
Derivative assets held for risk management	0	0	0	0	0	0
Loans and advances to banks	0	0	0	0	0	0
Loans and advances to other customers	0	0	0	0	0	0
Investments securities	0	0	0	0	0	0
Intangible assets	0	0	0	0	0	0
Property and equipment	0	0	0	0	0	0
Other assets	0	0	0	0	0	0
Derivative liabilities held for risk management	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0
Unused tax losses and unused tax credits	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Deferred tax assets/liabilities recognized in the Income statement</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Investments in financial assets available for sale	0	0	0	0	0	0
Protection from cash flow risk	0	0	0	0	0	0
<b>Deferred tax assets/liabilities recognized in the Equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total recognized deferred tax assets / liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**B Unrecognized deferred tax assets**

Tax losses  
Tax credits  
**Total unrecognized deferred tax assets**

in MKD thousands	
current year 2021	previous year 2020
0	0
0	0
<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**30 Current and deferred tax assets and deferred tax liabilities**
**C Adjustment of movements in deferred tax assets and deferred tax liabilities during the year**

		Recognized during the year in:		
	Balance as at 1 January	Income statement	Equity	Balance as at 31 December
<i>previous year 2020</i>				
Derivative assets held for risk management	0	0		0
Loans and advances to banks	0	0		0
Loans and advances to other customers	0	0		0
Investments securities	0	0		0
Intangible assets	0	0		0
Property and equipment	0	0		0
Other assets	0	0		0
Derivative liabilities held for risk management	0	0		0
Other liabilities	0	0		0
Unused tax losses and unused tax credits	0	0		0
Other	0	0		0
Investments in financial assets available for sale	0		0	0
Protection from cash flow risk	0		0	0
<b>Total recognized deferred tax assets / liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<i>current year 2021</i>				
Derivative assets held for risk management	0	0		0
Loans and advances to banks	0	0		0
Loans and advances to other customers	0	0		0
Investments securities	0	0		0
Intangible assets	0	0		0
Property and equipment	0	0		0
Other assets	0	0		0
Derivative liabilities held for risk management	0	0		0
Other liabilities	0	0		0
Unused tax losses and unused tax credits	0	0		0
Other	0	0		0
Investments in financial assets available for sale	0		0	0
Protection from cash flow risk	0		0	0
<b>Total recognized deferred tax assets / liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**31 Non-current assets held for sale and disposal group**
**A Non-current assets held for sale**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
Intangible assets	0
Property and equipment	0
<b>Total non-current assets held for sale</b>	<b>0</b>

**B Disposal group**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<i>Group of assets for disposal</i>	
Financial assets	0
Intangible assets	0
Property and equipment	0
Investments in associates	0
Tax assets	0
Other assets	0
<b>Total group of assets for disposal</b>	<b>0</b>
<i>Liabilities directly related to the group of assets for disposal</i>	
Financial liabilities	0
Provisions	0
Tax liabilities	0
Other liabilities	0
<b>Total liabilities directly related to the group of assets for disposal</b>	<b>0</b>

**C Profit/(loss) recognized from sale of assets held for sale and disposal group**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
Profit/(loss) recognized from sale of assets held for sale and disposal group	0

**NLB BANKA AD SKOPJE****Financial statement for the year ended 31 December 2021***(all amounts in MKD thousands unless otherwise stated)***32 Trading liabilities**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<i>Deposits from banks</i>	
Current accounts, demand deposits and overnight deposits	0
Time deposits	0
Other deposits	0
	0
<i>Deposits from other customers</i>	
Current accounts, demand deposits and overnight deposits	0
Time deposits	0
Other deposits	0
	0
<i>Issued securities</i>	
Money market instruments	0
Deposit certificates	0
Issued bonds	0
Other	0
	0
<i>Other financial liabilities</i>	0
<i>Derivatives for trading</i>	
Contracts dependent on the change of the interest rate	0
Contracts dependent on the change of the exchange rate	0
Contracts dependent on the change of the price of securities	0
Other contracts meeting the criteria of IFRS 9	0
	0
<b>Total trading liabilities</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**33 Financial liabilities at fair value through profit and loss, designated at initial recognition**

<i>in MKD thousands</i>				
current year 2021		previous year 2020		
carrying amount	contractual value, payable on maturity	carrying amount	contractual value, payable on maturity	
<i>Deposits from banks</i>				
Current accounts, demand deposits and overnight deposits	0	0	0	0
Time deposits	0	0	0	0
Other deposits	0	0	0	0
0	0	0	0	0
<i>Deposits from other customers</i>				
Current accounts, demand deposits and overnight deposits	0	0	0	0
Time deposits	0	0	0	0
Other deposits	0	0	0	0
0	0	0	0	0
<i>Issued securities</i>				
Money market instruments	0	0	0	0
Deposit certificates	0	0	0	0
Issued bonds	0	0	0	0
Other	0	0	0	0
0	0	0	0	0
<i>Subordinated liabilities</i>				
0	0	0	0	0
<i>Other financial liabilities</i>				
0	0	0	0	0
<b>Total financial liabilities at fair value through profit and loss, designated at initial recognition</b>				
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<b>Movement of changes in the credit ability of the bank, for financial liabilities measured at fair value</b>	
Balance as at 1 January	0
Recognized in Other comprehensive income for the year (Transfer to other reserve funds)	0
0	0
<b>Balance as at 31 December</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**34 Deposits**
**34.1 Deposits from banks**

<i>in MKD thousands</i>				
current year 2021		previous year 2020		
short term	long term	short term	long term	
Current accounts				
domestic banks	261,946	0	165,289	0
foreign banks	95,593	0	179,584	0
Demand deposits				
domestic banks	224	0	304	0
foreign banks	0	0	0	0
Time deposits				
domestic banks	0	0	0	0
foreign banks	0	0	0	0
Restricted deposits				
domestic banks	0	0	0	0
foreign banks	0	0	0	0
Other deposits				
domestic banks	0	0	0	0
foreign banks	0	0	0	0
Liabilities for interest on deposits				
domestic banks	(1)	0	(4)	0
foreign banks	0	0	0	0
Current maturity	0	0	0	0
<b>Total deposits from banks</b>	<b>357,762</b>	<b>0</b>	<b>345,173</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**34 Deposits**
**34.2 Deposits from other customers**

<i>in MKD thousands</i>				
current year 2021		previous year 2020		
short term	long term	short term	long term	
<b>Enterprises</b>				
Current accounts	20,039,409	0	18,591,253	0
Demand deposits	68,535	0	25,022	0
Time deposits	467,230	368,321	239,981	754,964
Restricted deposits	397,205	110,147	322,043	97,640
Other deposits	0	0	0	0
Liabilities for interest on deposits	2,439	0	4,277	0
	20,974,818	478,468	19,182,576	852,604
<b>State</b>				
Current accounts	347,344	0	376,390	0
Demand deposits	0	0	0	0
Time deposits	254	0	254	0
Restricted deposits	0	0	0	0
Other deposits	0	0	0	0
Liabilities for interest on deposits	242	0	223	0
	347,840	0	376,867	0
<b>Non-profit institutions</b>				
Current accounts	777,091	0	729,238	0
Demand deposits	3,825	0	3,142	0
Time deposits	3,601	65,887	9,410	103,683
Restricted deposits	3,851	0	3,151	0
Other deposits	0	0	0	0
Liabilities for interest on deposits	46	0	120	0
	788,414	65,887	745,061	103,683
<b>Financial organisations, except banks</b>				
Current accounts	482,469	0	348,146	0
Demand deposits	740	0	123	0
Time deposits	49,535	43,739	107,083	59,968
Restricted deposits	44,500	400	11,536	401
Other deposits	0	0	0	0
Liabilities for interest on deposits	274	0	623	0
	577,518	44,139	467,511	60,369
<b>Households</b>				
Current accounts	32,447,256	0	26,778,208	0
Demand deposits	10,025,753	0	7,859,658	0
Time deposits	5,695,530	12,430,465	6,045,823	14,370,128
Restricted deposits	146,182	1,293,347	211,812	1,380,113
Other deposits	0	0	0	0
Liabilities for interest on deposits	68,437	0	101,619	0
	48,383,158	13,723,812	40,997,120	15,750,241
<b>Non-residents, except banks</b>				
Current accounts	727,674	0	757,618	0
Demand deposits	18,205	0	31,682	0
Time deposits	20,264	80,810	24,212	84,614
Restricted deposits	0	0	0	0
Other deposits	0	0	0	0
Liabilities for interest on deposits	399	0	508	0
	766,542	80,810	814,020	84,614
<b>Current maturity</b>				
	6,982,252	(6,982,252)	8,289,295	(8,289,295)
<b>Total deposits from other customers</b>	<b>78,820,542</b>	<b>7,410,864</b>	<b>70,872,450</b>	<b>8,562,216</b>

### 35 Issued debt securities

<i>in MKD thousands</i>	
current year 2021	previous year 2020
Money market instruments	0
Deposit certificates	0
Issued bonds	0
Other	0
Liabilities for interest on issued securities	0
<b>Total issued debt securities</b>	<b>0</b>



**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**36 Borrowings**
**A Structure of borrowings by type of obligation and the sector of the lender**

<i>in MKD thousands</i>				
current year 2021		previous year 2020		
short term	long term	short term	long term	
Banks				
residents				
Borrowings	0	1,014,043	0	190,578
Repo transactions	0	0	0	0
Liabilities for interest	232	0	368	0
non-residents				
Borrowings	0	479,002	0	179,443
Repo transactions	0	0	0	0
Liabilities for interest	1,432	0	42	0
Enterprises				
Borrowings	0	0	0	0
Repo transactions	0	0	0	0
Liabilities for interest	0	0	0	0
State				
Borrowings	2,426	16,873	2,691	24,124
Repo transactions	0	0	0	0
Liabilities for interest	26	0	34	0
Non-profit institutions				
Borrowings	0	4,902	0	25,095
Liabilities for interest	0	0	2	0
Financial organisations, except banks				
Borrowings	0	0	0	0
Repo transactions	0	0	0	0
Liabilities for interest	0	0	0	0
Non-residents, except banks				
Enterprises				
Borrowings	0	0	0	0
Repo transactions	0	0	0	0
Liabilities for interest	0	0	0	0
State				
Borrowings	0	0	0	0
Repo transactions	0	0	0	0
Liabilities for interest	0	0	0	0
Non-profit institutions				
Borrowings	0	0	0	0
Repo transactions	0	0	0	0
Liabilities for interest	0	0	0	0
Financial organisations, except banks				
Borrowings	0	0	0	0
Repo transactions	0	0	0	0
Liabilities for interest	0	0	0	0
Households				
Borrowings	0	0	0	0
Liabilities for interest	0	0	0	0
Current maturity	280,325	(280,325)	155,071	(155,071)
<b>Total borrowings</b>	<b>284,441</b>	<b>1,234,495</b>	<b>158,208</b>	<b>264,169</b>

**NLB BANKA AD SKOPJE****Financial statement for the year ended 31 December 2021***(all amounts in MKD thousands unless otherwise stated)***36 Borrowings****B Borrowings by lender**

in MKD thousands				
current year 2021		previous year 2020		
short term	long term	short term	long term	
domestic sources:				
Development Bank of North Macedonia	232	1,014,043	368	190,578
Macedonian Enterprise Development Foundation	0	4,902	2	25,095
Ministry of Finance	2,452	16,873	2,725	24,124
	2,684	1,035,818	3,095	239,797
foreign sources:				
EBRD LONDON UK	1,432	479,002	42	179,443
	1,432	479,002	42	179,443
Current maturity	280,325	(280,325)	155,071	(155,071)
Total borrowings	284,441	1,234,495	158,208	264,169

**37 Subordinated liabilities**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
<i>Subordinated deposit liabilities</i>	
0	0
0	0
0	0
Liabilities for interest	0
0	0
<i>Subordinated loan liabilities</i>	
NOVA LJUBLJANSKA BANKA D.D	
2,766,621	1,846,644
Liabilities for interest	1,374
2,768,342	1,848,018
<i>Subordinated debt security issued liabilities</i>	
0	0
0	0
0	0
Liabilities for interest	0
0	0
Redeemable priority shares	2,768,342
	1,848,018
<b>Total subordinated liabilities</b>	<b>2,768,342</b>
	<b>1,848,018</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**38 Provisions**

<i>in MKD thousands</i>	Provisions for off- balance	Provisions for contingent liabilities based on litigation	Provisions for pension and other benefits for employees	Provisions for restructuring	Provisions for unfavorable contracts	Other provisions	Total
<b>Balance as at 1 January 2020 (previous year)</b>	119,926	61,698	61,615	0	0	0	243,239
additional provisions during the year	26,808	0	12,820	0	0	0	39,628
(used provisions during the year)	0	0	(2,706)	0	0	0	(2,706)
(released provisions during the year)	(23,227)	0	(1,989)	0	0	0	(25,216)
effect of exchange differences	26	0	0	0	0	0	26
<b>Balance as at 31 December 2020 (previous year)</b>	<b>123,533</b>	<b>61,698</b>	<b>69,740</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>254,971</b>
<b>Balance as at 1 January 2021 (current year)</b>	123,533	61,698	69,740	0	0	0	254,971
additional provisions during the year	47,662	2,390	7,260	0	0	0	57,312
(used provisions during the year)	0	(54)	(3,206)	0	0	0	(3,260)
(released provisions during the year)	(2,264)	0	(8,258)	0	0	0	(10,522)
effect of exchange differences	(22)	0	0	0	0	0	(22)
<b>Balance as at 31 December 2021 (current year)</b>	<b>168,909</b>	<b>64,034</b>	<b>65,536</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>298,479</b>

**39 Other liabilities**

<i>in MKD thousands</i>		
	current year 2021	previous year 2020
Suppliers	67,910	90,034
Advances received	5,014	3,661
Commission liabilities	25	26
Calculated expenses	100,562	98,060
Revenue from previous year	30,127	35,176
Short-term liabilities to employees	61,583	43,090
Short-term employee benefit liabilities	46,568	68,758
Other		
dividend liabilities	1,277,884	
accounts for credit card operations	57,840	48,754
temporary retained payments	573,530	344,523
other	165,055	95,081
<b>Total other liabilities</b>	<b>2,386,098</b>	<b>827,163</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**40 Share capital**
**A Share capital**

	in MKD		number of issued shares				in MKD thousands	
	Nominal value per share		ordinary shares		non-redeemable priority shares		Total share capital	
	ordinary shares	non-redeemable priority shares	current year 2021	previous year 2020	current year 2021	previous year 2020	current year 2021	previous year 2020
Balance as at 1 January - fully paid	1,000	0	854,061	854,061	0	0	854,061	854,061
Shares registered during the year	0	0	0	0	0	0	0	0
Realization of share options	0	0	0	0	0	0	0	0
Division / consolidation of the nominal value of the share	0	0	0	0	0	0	0	0
Other changes during the year	0	0	0	0	0	0	0	0
Balance as at 31 December - fully paid	1,000	0	854,061	854,061	0	0	854,061	854,061

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 40 Share capital

#### B Dividends

##### B.1 Published dividends and paid dividends by the bank

	in MKD thousands	
	current year 2021	previous year 2020
	1,526,207	0
Published dividends and paid dividends for the year		

	in MKD thousands	
	current year 2021	previous year 2020
	1,787	0
Dividend per ordinary share		
Dividend per priority share	0	0

##### B.2 Dividends published after the Balance sheet date (dividend liabilities are not presented in the Balance sheet)

Note: Draft-Decision for dividends for the year by the Supervisory Board of the Bank, but by the date of issue of the Financial Statements, the dividend was not confirmed by the Shareholders Assembly of the Bank

	in MKD thousands	
	current year 2021	previous year 2020
	0	0
Dividends published after 31 December		

	in MKD	
	current year 2021	previous year 2020
	0.00	0.00
Dividend per ordinary share		
Dividend per priority share	0.00	0.00

#### C Shareholders whose ownership exceeds 5% of shares with voting rights

	in MKD thousands		in %	
	current year 2021	previous year 2020	current year 2021	previous year 2020
Name of the shareholder	Share capital (nominal value)	Share capital (nominal value)	voting right	voting right
NLB d.d. Ljubljana	742,804	742,804	86.97%	86.97%
<b>Total</b>	<b>742,804</b>	<b>742,804</b>	<b>86.97%</b>	<b>86.97%</b>

## 41 Earnings per share

### A Basic earnings per share

*Net profit attributable to holders of ordinary shares*

Net profit for the year

Dividend for non-redeemable priority shares

Corrections of the net profit attributable to holders of ordinary shares

**Net profit attributable to holders of ordinary shares**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
2,219,107	1,704,271
0	0
0	0
<b>2,219,107</b>	<b>1,704,271</b>

*Weighted average number of ordinary shares*

Ordinary shares issued as at 1 January

Effects of changes in the number of ordinary shares during the year

**Weighted average number of ordinary shares as at 31 December**

**Basic earnings per share (in MKD)**

<i>number of shares</i>	
current year 2021	previous year 2020
854,061	854,061
0	0
<b>854,061</b>	<b>854,061</b>
<b>2,598</b>	<b>1,995</b>



**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**41 Earnings per share**
**B Diluted earnings per share**
*Net profit attributable to holders of ordinary shares (diluted)*

Net profit for the year attributable to holders of ordinary shares

Correction of the net profit attributable to holders of ordinary shares for the effects of all issued potential ordinary shares (diluted)

**Net profit attributable to holders of ordinary shares (diluted)**

<i>in MKD thousands</i>	
current year 2021	previous year 2020
2,219,107	1,704,271
0	0
<b>2,219,107</b>	<b>1,704,271</b>

*Weighted average number of ordinary shares (diluted)*

Ordinary shares issued as at 1 January

Effects of issuing potential ordinary shares

**Weighted average number of ordinary shares (diluted) as at 31 December**
**Diluted earnings per share (in MKD)**

<i>number of shares</i>	
current year 2021	previous year 2020
854,061	854,061
0	0
<b>854,061</b>	<b>854,061</b>
<b>2,598</b>	<b>1,995</b>

**42 Contingent liabilities and contingent assets**
**42.1 Contingent liabilities**

<i>in MKD thousands</i>		
	current year 2021	previous year 2020
Financial uncovered guarantees		
in mkd	4,141,649	3,529,061
in foreign currency	1,193,293	1,468,118
in mkd with currency clause	184,780	90,613
Service uncovered guarantees		
in mkd	2,187,836	1,724,553
in foreign currency	152,516	55,677
in mkd with currency clause	150,412	154,870
Uncovered letters of credit		
in mkd	0	0
in foreign currency	1,604,545	887,281
in mkd with currency clause	0	0
Unused overdrafts on current accounts	1,500,589	1,527,285
Unused limits on credit cards	1,927,093	1,928,074
Lending commitments and unused credit limits	7,185,163	6,837,295
Issued covered guarantees	213,511	265,546
Covered letters of credit	2,317	18,091
Other contingent liabilities	0	0
<b>Total contingent liabilities before provisions</b>	<b>20,443,704</b>	<b>18,486,464</b>
(Provisions)	(168,909)	(123,533)
<b>Total contingent liabilities less provisions</b>	<b>20,274,795</b>	<b>18,362,931</b>

**42.2 Contingent assets**

<i>in MKD thousands</i>		
	current year 2021	previous year 2020
List the significant potential assets:		
_____	0	0
_____	0	0
_____	0	0
<b>Total contingent assets</b>	<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**43 Activities managed on behalf of third parties**

<i>in MKD thousands</i>					
current year 2021			previous year 2020		
assets	liabilities	net	assets	liabilities	net
Administration of assets on behalf of third parties					
Deposits in mkd	262,388	(262,388)	0	258,423	(258,423)
Deposits in foreign currency	0	0	0	0	0
Loans in mkd	463,719	260,544	680,603	424,901	255,702
Loans in foreign currency	0	0	0	0	0
Other assets in mkd	47,365,537	(745)	42,969,722	42,973,387	(3,665)
Other assets in foreign currency	0	0	0	0	0
Management of assets on behalf of third parties					
Deposits in mkd	0	0	0	0	0
Deposits in foreign currency	0	0	0	0	0
Loans in mkd	0	0	0	0	0
Loans in foreign currency	0	0	0	0	0
Other assets in mkd	0	0	0	0	0
Other assets in foreign currency	0	0	0	0	0
Custody accounts	138,870	0	216,108	216,108	0
Other	0	0	0	0	0
<b>Total</b>	<b>48,228,670</b>	<b>(2,589)</b>	<b>43,866,433</b>	<b>43,872,819</b>	<b>(6,386)</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 44 Related party transactions

#### A Balance sheet

	Parent bank	Subsidiary	Associate	Management personnel of the Bank	Other related parties	Total
<i>in MKD thousands</i>						
<b>Balance as at 31 December 2021 (current year)</b>						
<b>Assets</b>						
Current accounts	491,519	0	0	0	115,607	607,126
Trading assets	0	0	0	0	0	0
Loans and advances						
mortgage loans	0	0	0	0	0	0
consumer loans	0	0	0	20,776	10,842	31,618
financial lease claims	0	0	0	0	0	0
factoring and forfeiting claims	0	0	0	0	0	0
other loans and advances	0	0	0	51,168	24,348	75,516
Investment securities	0	0	0	0	0	0
(Allowance for impairment)	(4,915)	0	0	(617)	(2,475)	(8,007)
Other assets	72	0	0	604	2,812	3,488
<b>Total</b>	<b>486,676</b>	<b>0</b>	<b>0</b>	<b>71,931</b>	<b>151,134</b>	<b>709,741</b>
<b>Liabilities</b>						
Trading liabilities	0	0	0	0	0	0
Deposits	22,815	0	0	91,323	269,923	384,061
Issued securities	0	0	0	0	0	0
Borrowings	0	0	0	0	0	0
Subordinated liabilities	2,768,342	0	0	0	0	2,768,342
Other liabilities	1,292,982	0	0	32,961	(31,507)	1,294,436
<b>Total</b>	<b>4,084,139</b>	<b>0</b>	<b>0</b>	<b>124,284</b>	<b>238,416</b>	<b>4,446,839</b>
<b>Contingent liabilities</b>						
Issued guarantees	4,720	0	0	0	18,189	22,909
Issued letters of credit	0	0	0	0	0	0
Other contingent liabilities	0	0	0	24,288	32,118	56,406
(Provisions)	(47)	0	0	(126)	(8,175)	(8,348)
<b>Total</b>	<b>4,673</b>	<b>0</b>	<b>0</b>	<b>24,162</b>	<b>42,132</b>	<b>70,967</b>
<b>Contingent assets</b>						
Received guarantees	0	0	0	0	0	0
Other contingent assets	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

	Parent bank	Subsidiary	Associate	Management personnel of the Bank	Other related parties	Total
<i>in MKD thousands</i>						
<b>Balance as at 31 December 2020 (previous year)</b>						
<b>Assets</b>						
Current accounts	249,272	0	0	0	209,867	459,139
Trading assets	0	0	0	0	0	0
Loans and advances	0	0	0	0	0	0
mortgage loans	0	0	0	0	0	0
consumer loans	0	0	0	21,221	5,961	27,182
financial lease claims	0	0	0	0	0	0
factoring and forfeiting claims	0	0	0	0	0	0
other loans and advances	0	0	0	43,835	22,258	66,093
Investment securities	0	0	0	0	0	0
(Allowance for impairment)	(2,493)	0	0	(680)	(3,038)	(6,211)
Other assets	63	0	0	352	166	581
<b>Total</b>	<b>246,842</b>	<b>0</b>	<b>0</b>	<b>64,728</b>	<b>235,214</b>	<b>546,784</b>
<b>Liabilities</b>						
Trading liabilities	0	0	0	0	0	0
Deposits	25,138	0	0	80,265	336,582	441,985
Issued securities	0	0	0	0	0	0
Borrowings	0	0	0	0	0	0
Subordinated liabilities	1,848,018	0	0	0	0	1,848,018
Other liabilities	99,614	0	0	47,664	(131,761)	15,517
<b>Total</b>	<b>1,972,770</b>	<b>0</b>	<b>0</b>	<b>127,929</b>	<b>204,821</b>	<b>2,305,520</b>
<b>Contingent liabilities</b>						
Issued guarantees	5,192	0	0	0	22,246	27,438
Issued letters of credit	0	0	0	0	0	0
Other contingent liabilities	0	0	0	28,751	4,823	33,574
(Provisions)	(52)	0	0	(119)	(10,023)	(10,194)
<b>Total</b>	<b>5,140</b>	<b>0</b>	<b>0</b>	<b>28,632</b>	<b>17,046</b>	<b>50,818</b>
<b>Contingent assets</b>						
Received guarantees	0	0	0	0	0	0
Other contingent assets	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# NLB BANKA AD SKOPJE

## Financial statement for the year ended 31 December 2021

(all amounts in MKD thousands unless otherwise stated)

### 44 Related party transactions

#### B Income and expenses from transactions with related parties

<i>in MKD thousands</i>	Parent bank	Subsidiary	Associate	Management personnel of the Bank	Other related parties	Total
<b>2021 (current year)</b>						
<b>Income</b>						
Interest income	10	0	0	1,688	888	2,586
Fee and commission income	12,475	0	0	307	998	13,780
Net trading income	0	0	0	0	0	0
Dividend income	0	0	0	0	0	0
Capital gain from sale of non-current assets	0	0	0	0	0	0
Other income	15,166	0	0	45	8,631	23,842
Transfers between entities	0	0	0	0	0	0
<b>Total</b>	<b>27,651</b>	<b>0</b>	<b>0</b>	<b>2,040</b>	<b>10,517</b>	<b>40,208</b>
<b>Expenses</b>						
Interest expenses	(99,828)	0	0	(488)	(1,662)	(101,978)
Fee and commission expenses	(38,555)	0	0	0	(5,276)	(43,831)
Net trading expenses	(7,762)	0	0	0	0	(7,762)
Expenses for purchase of non-current assets	0	0	0	0	0	0
Impairment on financial assets, net	(2,250)	0	0	90	2,376	216
Other expenses	(3,721)	0	0	(767)	(14,076)	(18,564)
Transfers between entities	0	0	0	0	0	0
<b>Total</b>	<b>(152,116)</b>	<b>0</b>	<b>0</b>	<b>(1,165)</b>	<b>(18,638)</b>	<b>(171,919)</b>

<i>in MKD thousands</i>	Parent bank	Subsidiary	Associate	Management personnel of the Bank	Other related parties	Total
<b>2020 (previous year)</b>						
<b>Income</b>						
Interest income	28	0	0	2,637	732	3,397
Fee and commission income	9,654	0	0	346	908	10,908
Net trading income	0	0	0	0	0	0
Dividend income	0	0	0	0	0	0
Capital gain from sale of non-current assets	0	0	0	0	0	0
Other income	(14,261)	0	0	200	2,460	(11,601)
Transfers between entities	0	0	0	0	0	0
<b>Total</b>	<b>(4,579)</b>	<b>0</b>	<b>0</b>	<b>3,183</b>	<b>4,100</b>	<b>2,704</b>
<b>Expenses</b>						
Interest expenses	(99,839)	0	0	(443)	(2,392)	(102,674)
Fee and commission expenses	(31,012)	0	0	0	(4,515)	(35,527)
Net trading expenses	(13,231)	0	0	0	0	(13,231)
Expenses for purchase of non-current assets	0	0	0	0	0	0
Impairment on financial assets, net	(2,615)	0	0	(113)	1,182	(1,546)
Other expenses	(4,049)	0	0	(351)	(4,814)	(9,214)
Transfers between entities	0	0	0	0	0	0
<b>Total</b>	<b>(150,746)</b>	<b>0</b>	<b>0</b>	<b>(907)</b>	<b>(10,539)</b>	<b>(162,192)</b>

#### C Compensate of the Management personnel of the Bank

	<i>in MKD thousands</i>	
	current year 2021	previous year 2020
Short-term employee benefits	135,392	113,010
Benefits after the termination of employment	6,781	6,094
Benefits for termination of employment	0	0
Share-based payments by equity holders, settled by equity instruments	0	0
Payments to employees based on shares, settled in cash	0	0
Other	4,972	7,236
<b>Total</b>	<b>147,145</b>	<b>126,340</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**45 Leases**
**A Lessor**
**A.1 Claims for financial leases**
*in MKD thousands*
**Balance as at 31 December 2021 (current year)**
**Current value of minimum lease payments**
**Total**
**Balance as at 31 December 2020 (previous year)**
**Current value of minimum lease payments**
**Total**

Total claims for financial leases	Maturity period of claims for financial leases		
	up to 1 year	from 1 to 5 years	over 5 years
0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**A.2 Claims for irrevocable operating leases**
*in MKD thousands*
**Balance as at 31 December 2021 (current year)**
**Current value of minimum lease payments**
**Total**
**Balance as at 31 December 2020 (previous year)**
**Current value of minimum lease payments**
**Total**

Total claims for irrevocable operating leases	Maturity period of claims for irrevocable operating leases		
	up to 1 year	from 1 to 5 years	over 5 years
0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
0	0	0	0
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

*in MKD thousands*
**Value of the property given under operating lease:**
**balance as at 31 December 2021 (current year)**
**balance as at 31 December 2020 (previous year)**
**Total**

Land	Buildings	Motor vehicles	Furniture and office equipment	Other equipment	Other items on property and equipment	Total
0	184,931	0	0	0	0	<b>184,931</b>
0	191,622	0	0	0	0	<b>191,622</b>
<b>0</b>	<b>184,931</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>184,931</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**45 Leases**
**B Lessee**
**B.1 Liabilities for financial leases**

	Total liabilities for financial leases	Maturity period of financial lease liabilities		
		up to 1 year	from 1 to 5 years	over 5 years
<i>in MKD thousands</i>				
<b>Balance as at 31 December 2021 (current year)</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance as at 31 December 2020 (previous year)</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

	Land	Buildings	Motor vehicles	Furniture and office equipment	Other equipment	Other items on property and equipment	Total
<i>in MKD thousands</i>							
Value of property under financial lease:							
<b>At cost</b>							
Balance as at 1 January 2020 (previous year)	0	0	628	0	0	0	628
increases	0	0	0	0	0	0	0
(disposals)	0	0	(628)	0	0	0	(628)
other	0	0	0	0	0	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Balance as at 1 January 2021 (current year)	0	0	0	0	0	0	0
increases	0	0	0	0	0	0	0
(disposals)	0	0	0	0	0	0	0
other	0	0	0	0	0	0	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Amortisation and depreciation</b>							
Balance as at 1 January 2020 (previous year)	0	0	569	0	0	0	569
amortisation for the year	0	0	13	0	0	0	13
impairment loss during the year	0	0	0	0	0	0	0
(reversal impairment during the year)	0	0	0	0	0	0	0
(disposals)	0	0	(582)	0	0	0	(582)
other	0	0	0	0	0	0	0
<b>Balance as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Balance as at 1 January 2021 (current year)	0	0	0	0	0	0	0
amortisation for the year	0	0	0	0	0	0	0
impairment loss during the year	0	0	0	0	0	0	0
(reversal impairment during the year)	0	0	0	0	0	0	0
(disposals)	0	0	0	0	0	0	0
other	0	0	0	0	0	0	0
<b>Balance as at 31 December 2021 (current year)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current carrying amount</b>							
as at 1 January 2020 (previous year)	0	0	59	0	0	0	59
<b>as at 31 December 2020 (previous year)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>as at 31 December 2021 (current year)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**45 Leases**
**B Lessee**
**B.2 Liabilities for irrevocable operating leases**

	Total liabilities for irrevocable operating leases	Maturity period of liabilities for irrevocable operating leases		
		up to 1 year	from 1 to 5 years	over 5 years
<i>in MKD thousands</i>				
<b>Balance as at 31 December 2021 (current year)</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance as at 31 December 2020 (previous year)</b>	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



**NLB BANKA AD SKOPJE**
**Financial statement for the year ended 31 December 2021**
*(all amounts in MKD thousands unless otherwise stated)*
**46 Payment based on shares**

Date of the option given  
 Expiry date of the option  
 Cost of realization of the option  
 Cost of the share at the date of the option given  
 Variance  
 Expected dividend yield  
 Interest rate  
 Fair value at the date of the option given

<i>in MKD thousands</i>	
current year 2021	previous year 2020
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0

**Balance as at 1 January**

Changes during the year:

options given to the members of the Supervisory board  
 options given to the members of the Management board  
 other options given  
 forfeited options  
 realized options  
 expired options

**Balance as at 31 December**

current year 2021		previous year 2020	
number of stock options	weighted average price for stock options	number of stock options	weighted average price for stock options
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0

**ANNUAL REPORT OF NLB BANKA AD  
SKOPJE  
FOR 2021**

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## **I. Profile of the Bank**

NLB Banka AD Skopje<sup>1</sup> was founded in 1985 and has been operating as a commercial bank that performs all banking services for clients from the country and abroad since 1993. Since its beginnings, it has been one of the leading banking institutions in the Republic of North Macedonia with a steady upward trend and continuous positive results. The Bank belongs to systemically important banks and is the third largest bank in the Republic of North Macedonia by net assets. The Bank's strategic shareholder is Nova Ljubljanska Banka d.d. Ljubljana with 86.97% participation in the total capital of the Bank. The Bank has been a member of the NLB Group since 2000.

### **Activities of the Bank in 2021**

In 2021, the Bank operated in accordance with the 2021 Business Policy, the 2021-2025 Strategic Development and Operations Guidelines of the Bank and the NLB Group's 2021 Guidelines, adjusting its current operating activities and pricing policy to economic and market conditions, in accordance with the changes in the legal provisions and the changes in the business policy of the NLB Group.

Opposite to expectations of an accelerated recovery from the pandemic crisis, challenges persisted throughout the year, with numerous constraints on the domestic economy and globally, especially evident in the first quarter of the year. Despite the unfavorable economic flows, the Bank achieved excellent results in almost all segments of operations. Thereby, as a socially responsible company, it made a significant contribution to supporting the community and individuals through financial assistance and other measures and activities.

Following the trends in the banking sector, the Bank throughout the year worked on the introduction of new innovative digital functionalities towards increase of its availability to customers. This was achieved through the improvement of mobile banking functionalities, the introduction of the first MasterCard platform for electronic identification and digital signing of documents, as well as the opening of the first fully digital branch, with a completely new business concept for cashless operations and automated processes.

During the year, the offer of non-banking products was enriched, through the introduction of a new product with a combination of products from investment funds and life insurance, as well as the introduction of sale and trading of shares and assets for individuals and legal entities.

For legal entities, i.e., micro and small enterprises that are an important pillar of the domestic economy, the "Help Frame project" started last year was extended, which provided marketing assistance to the companies identified as most affected by the crisis to overcome the consequences.

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<sup>1</sup> Hereinafter referred to as the Bank

## **Significant events and activities in 2021 by months:**

### **January**

In order to educate customers about the functionalities offered by mobile and electronic banking, during the month of January, useful tips were promoted for customers on how to quickly and easily make payments via mobile phone. Practical tips were also shared on how clients can realize their transactions quickly and easily through NLB mKlik - mobile or NLB Klik - electronic banking, without visiting a branch office and waiting in line.

As part of the "NLB Help Frame" campaign, some of the selected companies that were most affected by the crisis caused by Covid - 19 were promoted.

### **February**

The Bank continued to educate its customers during February, this time about the functionalities offered by NLB ATMs. Through promotional activities, clients were advised how to quickly and easily pay their liabilities based on utility costs, with any debit or credit card from VISA International and MasterCard Worldwide programs, regardless of the issuing bank. This additional service available at the Bank's ATMs is currently enabled for utility costs issued by A1, Makedonski Telekom and EVN.

New functionalities were introduced at NLB Proklik - electronic and NLB mProklik - mobile banking, with which legal entities can independently change the limit for online payment with business cards, as well as for transactions realized through ATMs and POS terminals, as needed.

### **March**

As a support to innovative and creative start-up businesses, NLB Banka signed a Memorandum of Cooperation with the Fund for Innovation and Technology Development (FITD). In order to meet the needs of companies that have the potential to realize innovative business ideas for development and progress of the Macedonian economy, but lack funding, the Bank introduced the Innovator package that provides a number of benefits and conveniences for newly established micro, small and medium enterprises, financed, co-financed or with a recommendation from FITD.

### **April**

Having care of its customers in the focus of its work, and to provide additional benefits when using banking products, NLB Banka and Croatia Life Insurance introduced a new and unique life insurance product on the market - "Safety Plus". The new product integrates more benefits and offers a range of conveniences, and customers receive additional security through life insurance and accident insurance, which are part of the product.

As a company that is continuously committed to providing support in socially responsible activities, especially in the most vulnerable categories, the Bank conducted a large donation campaign and donated 60 personal computers (laptops) intended for schools and students from socially vulnerable families, in order to support online teaching.

## May

The Europe Banking Awards, organized by the renowned financial magazine EMEA, whose editorial vision is to be the "independent voice" of the financial community, has been recognizing and rewarding the achievements of banks in the region for thirteen years. At this year's Europe Banking Awards for 2020, the Bank won the fifth award for the Best Bank in the country. The criteria and parameters on the basis of which these prestigious awards were given refer to the ability of banks and financial institutions to provide innovative products and services, to show excellent results in investment banking, as well as the ability and capacity to function as socially responsible companies in society of which they are a part. The position of market leader in Bank Insurance was once again confirmed by expanding the offer by introducing voluntary private health insurance in cooperation with Sava Insurance.

## June

As part of its strategy to support investments in renewable energy sources and sustainable development, the Bank was one of the participating banks in the syndicated loan for financing the first private wind farm project in the Republic of North Macedonia. The project envisages construction of a wind farm with a capacity of 36MW. It is planned to install 8 wind turbines on the location near the village Bogoslovec, and the realization is expected to be completed by mid-2023. The total amount of the syndicated loan is EUR 51 million, while the participation of NLB Banka is EUR 7 million. Through this investment, the Bank makes its significant contribution to the realization of the goals of the state for increased participation of renewable energy sources in the production of electricity.

## July

NLB Banka, as a socially responsible company that also acts in support of culture, signed as a General Sponsor together with Visa Inc. for the latest film "Kajmak" by the famous Macedonian film director and screenwriter Milcho Manchevski.

## August

NLB Banka made significant improvements to the functionality of the existing NLB mKlik application, making it available for use by the visually impaired persons. With the new improvements of NLB mKlik mobile banking, the application has been adjusted to be readable for the functionality "built-in voice reader", so that the visually impaired customers will be able to have uninterrupted access to all their accounts, to perform all banking transactions, to update their data, apply for mobile credit - simply and digitally thanks to the voice guide.

## September

The Bank marked 10 years since the start of the project "NLB Savings Month", dedicating the jubilee to the theme "Let's save our planet", which fully corresponds to the Bank's efforts and activities for socially responsible action, environmental protection and sustainable development. As part of the prize challenge, the Bank, in a one-month action that was implemented in a total of 70 schools throughout the country, collected almost 10 tons of plastic packaging for recycling.

## October

NLB Banka received recognition from the European Bank for Reconstruction and Development (EBRD) for its contribution to raising awareness of the importance of energy efficiency, making the GEFF (Green Economy Financing Facility) loan available to a number of households that reduced energy consumption, thus contributing to the reduction of environmental pollution, as well as to the overall success of the GEFF program in the Western Balkans.

In cooperation with MasterCard International, the Bank was the first on the market to introduce the use of electronic identity, enabling customers to use banking services remotely, without the need to physically visit a branch and without the use of paper. With this option, clients can identify and sign e-documents with their qualified e-signature, from anywhere in the world.

In accordance with the strategic commitment of the NLB Group to encourage talent mobility and internationalization of teams, the current President of the Management Board, Antonio Argir, was promoted to a new position at the headquarters of NLB d.d. Ljubljana - Executive Assistant to the Board of Directors of NLB d.d., responsible for managing the NLB Group. Branko Greganović, the current Chief Executive Officer and Chief Financial Officer of NLB Banka Belgrade has been appointed the new President of the Management Board of NLB Banka Skopje.

## November

In order to contribute to the increase of the offer of favorable loans for fixed and working capital through the use of the benefits of the Guarantee Fund from the Development Bank of the Republic of North Macedonia (DBNM), NLB Banka Skopje signed an Agreement with DBNM for issuing a portfolio guarantee from the Guarantee Fund. With this, the Bank joined the state guarantee scheme to support the development of domestic companies, by guaranteeing part of the collateral after the approved loans. The guarantee scheme is part of the economic set of measures adopted by the Government of the Republic of North Macedonia to deal with the consequences of the pandemic of Covid-19 and is part of the Plan for accelerated economic growth of the Government. As a market leader in Bank Insurance, the Bank has enriched the offer in this segment by launching a new product in cooperation with Triglav Life Insurance - Unit Linked, life insurance investment insurance policies.

## December

NLB Banka in cooperation with the investment fund management company Generali Investments AD Skopje has expanded its portfolio of non-bank financial products and services, starting with the sale of shares in investment funds managed by the company. With the introduction of this product, the Bank complemented the concept of "one stop shop", i.e. financial supermarket that offers comprehensive financial advice and a rich offer of financial products and services to its customers. In accordance with the strategy for socially responsible action, and in order to promote sustainability and environmental approach to work and environmental protection, the same month was launched and implemented the campaign "Aforest with one click" - a promotional campaign to provide statements of consent for the use of personal data on direct marketing, with special emphasis on digitally given statement of consent, without the use of paper forms, as well as information by the Bank on all novelties and benefits through digital channels.

In recognition of its successful operation on the Macedonian capital market, at the end of the year NLB Banka was awarded by the Macedonian Stock Exchange AD Skopje in the category "Share with the largest price increase in 2021".

**Table 1.** Key performance indicators

	2020	2021	Budget 2021
<b>ROE before tax</b>	<b>16,2%</b>	<b>18,8%</b>	<b>19,3%</b>
<b>ROE after tax</b>	<b>14,9%</b>	<b>17,0%</b>	<b>17,8%</b>
<b>ROA before tax</b>	<b>2,0%</b>	<b>2,4%</b>	<b>2,1%</b>
<b>ROA after tax</b>	<b>1,9%</b>	<b>2,2%</b>	<b>1,9%</b>
<b>Cost/Income Ratio</b>	<b>42,6%</b>	<b>40,5%</b>	<b>42,2%</b>
<b>Market share of total assets</b>	<b>16,5%*</b>	<b>16,9%*</b>	<b>16,2%</b>
<b>Capital Adequacy Ratio</b>	<b>15,7%</b>	<b>18,0%</b>	<b>15,6%</b>
<b>Earnings per share - EPS (profit/ number of shares)</b>	<b>1.995</b>	<b>2.598</b>	<b>2.117</b>
<b>Profit before tax (mil. MKD)</b>	<b>1.857,3</b>	<b>2.445,2</b>	<b>1.968,0</b>
YoY change in % (realized and planned)	-9,3%	31,7%	6,0%
<b>Profit after tax (mil. MKD)</b>	<b>1.704,3</b>	<b>2.219,1</b>	<b>1.808,1</b>
YoY change in % (realized and planned)	-7,9%	30,2%	6,1%
<b>Net operating income (mil. MKD)</b>	<b>4.494,2</b>	<b>5.159,4</b>	<b>4.733,4</b>
YoY change in % (realized and planned)	2,0%	14,8%	5,3%
<b>Operating costs (mil. MKD)</b>	<b>1.916,4</b>	<b>2.089,0</b>	<b>1.996,4</b>
YoY change in % (realized and planned)	0,6%	9,0%	4,2%
<b>Impairment and provisions, net (mil. MKD)</b>	<b>720,5</b>	<b>622,8</b>	<b>769,0</b>
YoY change in % (realized and planned)	59,4%	-13,6%	6,7%
<b>Net interest income / Average gross assets</b>	<b>3,7%</b>	<b>3,4%</b>	<b>3,7%</b>
<b>Balance sum (mil. MKD)</b>	<b>96.545,2</b>	<b>107.709,5</b>	<b>94.564,5</b>
YoY change in % (realized and planned)	9,5%	11,6%	-2,1%
<b>Loans to non-banking sector (change in %)</b>	<b>6,1%</b>	<b>13,2%</b>	<b>8,0%</b>
(market share in %)**	17,6%	18,3%	17,7%
<b>Deposits to non-banking sector (change in %)</b>	<b>9,9%</b>	<b>8,5%</b>	<b>-2,1%</b>
(market share in %)**	18,0%	18,1%	17,4%
<b>Provisions for balance and off-balance claims (mil. MKD)</b>	<b>5.096,5</b>	<b>5.434,8</b>	<b>6.111,4</b>
YoY change in % (realized and planned)	0,9%	6,6%	19,9%
<b>Assets on w hich provisions are calculated (mil. MKD)</b>	<b>79.679,7</b>	<b>90.415,5</b>	<b>-</b>
YoY change in %	12,7%	13,5%	-
<b>Coverage of portfolio w ith provisions</b>	<b>6,4%</b>	<b>6,0%</b>	<b>-</b>
<b>Non-performing loans/Total loans</b>	<b>4,2%</b>	<b>4,7%</b>	<b>4,9%</b>
<b>Loans to non-banking sector/Deposits from non-banking sector</b>	<b>72,9%</b>	<b>76,0%</b>	<b>80,4%</b>
<b>Number of branches</b>	<b>50</b>	<b>48</b>	<b>51</b>
<b>Number of employees</b>	<b>877</b>	<b>877</b>	<b>873</b>
<b>Number of FTE employees</b>	<b>901</b>	<b>906</b>	<b>903</b>
<b>Profit before tax per employee (thsd. MKD)***</b>	<b>2.117,8</b>	<b>2.788,1</b>	<b>2.254,3</b>
<b>Net Profit per employee (thsd. MKD)***</b>	<b>1.943,3</b>	<b>2.530,3</b>	<b>2.071,2</b>

\* last data available as of 30.09.2021

\*\* market shares are according to data published in the section of the Monetary Statistics of the NBNM Statistical Web Portal

\*\*\*in relation to number of employees



## II. Macroeconomic environment

The Macedonian economy in 2021 continued to be affected by uncertainty due to prolongation of the pandemic caused by Covid-19. Numerous sectors and activities were affected by the crisis and are still affected by the health and economic consequences of the pandemic. As of the third quarter, the domestic economy continues to recover, when GDP growth by 3.0% and annual growth of 4.9%. The annual growth in GDP which according to domestic and foreign institutional forecasts for 2021 ranged from 3.6% to 4.6%, and the recovery for 2022 is expected to range from 3.7% to 4.6%, shows that in the best conditions only in 2022 it is possible to return to the pre-pandemic level of the economy. The growth is largely affected by growth of Domestic demand, especially personal consumption, amid a negative contribution from net exports.

Domestic state institutions through monetary and fiscal policy adopted a series of measures in order to mitigate the negative effects of the Covid-19 pandemic, which as expected spill over into the next year. However, in August 2021, the international rating agency "Standard and Poor's" reaffirmed the credit rating of North Macedonia "BB-/B", with a stable outlook as its stated in the report, reflects the expectations that the projected economic recovery of our country will help to limit the fiscal and external deficit next year. The agency noted that the rating could be raised if structural reforms continued to strengthen institutional capacity while preserving sustainable fiscal policies. Additionally, in November 2021, the international rating agency "Fitch" confirmed the credit rating of North Macedonia "BB +" with a negative outlook, emphasizing that the confirmed rating in conditions of pandemic is a result of the implementation of good governance policies, human capital development, as well as credible and coherent macroeconomic and financial policies consistent with the long-held fixed exchange rate.

**Table 2.** Key macroeconomic indicators

	2019	2020	2021
Inflation (% average)	0,8	1,2	3,2
Industrial production (% period/period)	-5,9	2,5	-4,9
Reference rate NBRNM (%)	2,25	1,50	1,25
Treasury bill rate (%)	2,25	1,50	1,25
GDP (growth%)	3,6	-3,3	3,0*
GDP (mil.EUR)*	11.210,2	7.743,0	8.381,7*
Budget deficit (mil.EUR)	-221,6	-876,0	-630,6
% of GDP	-2,0%	-8,5%	6,5%***
Government debt(mil.EUR)	4.556,8	5.516,0	6080,2
% of GDP	40,7%	51,9%	0,5
Current account (mil.EUR)	-368,3	-366,2	-81,0*
% of GDP	-3,3%	-3,4%	-3,2%
External debt	2.763,5	3.382,5	3648,9
% of GDP	24,7%	31,3%	31,1%
Foreign reserves (mil.EUR)	3.262,6	3.359,9	3643,3
Unemployment rate (%)	17,3%	16,5%	15,7%*
Foreign direct investment (mil.EUR)	363,3	154,7	208,5*
% of GDP	3,2%	1,5%	2,5%*

\*Q3.2021

\*\*GDP production method, current prices

\*\*\* Projected by Ministry of Finance

Source: NBRNM, SSO, Ministry of finance

**The GDP growth rate** which the Macedonian economy achieved as of Q3 2021 is 3.0%, which is a significant lower compared to the largest growth in the last two decades which was realized in Q2 2021 of 13.1%. Growth rate of 2.4% was recorded in personal consumption, while growth rate of 4.9% was recorded in public consumption, compared to the same period last year, considering current prices, while growth rate of 0.4% was also recorded by gross investments. From a production point of view, most of the sectors realized decrease such as Manufacturing by 5.8%, Construction by 1.5%, Mining by 4.5%, while growth in the rate was registered in Wholesale and retail trade by 11.0%, Public Administration and Defence by 2.2% and Agriculture by 1.2%.

The downward trend in **the unemployment rate**, which was halted in Q2 2020 by the outbreak of the Covid-19 pandemic, continued in 2021. At the end of the third quarter of 2021 unemployment rate was 15.7% (2020: 16.1%) amid simultaneous employment rate increase of 47.4% (Q4 2020: 46.8%). The number of unemployed persons in the third quarter (148.477) compared to the same period last year is lower by 7.098 persons or by 4.6%, while the number of employed persons (796.681) is higher by 11.120 employees or by 1.4%. The average monthly net wage paid in November 2021 was 29.130 MKD or 5.6% more than in November 2020.

Total **foreign trade exchange** for the period January - December 2021 amounted to EUR 16.561 million and compared to the same period last year increased by 23.8%. Exports increased by 19.8% while imports increased by 26.9% making the rate of import-export coverage 71.8%, while the negative trade balance amounted to EUR 2.715,7 million or 49.5% higher than the same period last year (EUR 1.816,6 million). In the period January - December 2021 according to the total volume of foreign trade, Republic of North Macedonia traded mostly with Germany, Great Britain, Greece, Serbia and China.

**Foreign direct investment** as of Q3 2021 amounted to EUR 208.5 million, a 96% increase over the same period last year, when foreign direct investment amounted to EUR 106.4 million.

## Real sector

**Industrial production** as of 31.12.2021 achieved cumulative annual growth of 1.4% compared to the same period last year. The growth stems from the achieved result in all sectors, as follows: in the Manufacturing industry sector increased by 1.2%, in the Mining and quarrying sector increased by 2.4% and in the Electricity, gas, steam supply and air conditioning sector increased by 2.1%. The increase in the Manufacturing sector is primarily due to the increase production in the following departments: Beverage production (5.4%), Tobacco production (28.7%), production of Chemicals and chemical products (49.3%) etc.

**Construction**, in relation to the value of performed operations as of December 2021 amounts to 3.788.809 thousand MKD. In the same period, the number of issued building permits was higher by 23.9% compared to the same period last year. The residential property price index in Q4 2021 was 111,4 (based on 2010 prices) and is increased by 11.3% compared to the same period last year.

## Fiscal sector

**The State budget** in 2021 realized total revenues of MKD 218.5 billion (EUR 3.5 billion) or 1.8% less than the rebalance, but 2.8% more than planned Budget. VAT revenues amounted to MKD 58.2 billion (EUR 0.95 billion) and are 7.3% higher of the rebalance of the Budget or 11.3% higher than planned for the period. Total expenditures amount to MKD 257.3 billion (EUR 4.2 billion) or 4.3% lower than the rebalance and 3.9% higher than planned. The budget deficit for 2021 is MKD 38.8 billion (EUR 0.6 billion) or 16.1% below the rebalance and 11% above the planned Budget for 2021. The Budget rebalance was made as a result of the economic situation, as well as the measures taken to protect against the Covid-19 pandemic.

**Government debt** (consolidated) in 2021 amounted to 374.7 billion MKD (EUR 6.080 million), representing 51,9% of GDP (2020: 51.9%). Out of the total government debt, 60% represent external debt (2020: 61.3%), while 40% (2020:38.7%) of the debt is created from domestic sources.

**Guaranteed and non-guaranteed debt of publicly owned companies and state-owned joint stock companies** in 2021 amounted to MKD 65.023,1 million (EUR 1.055,1 million), 2020: EUR 967.3 million.

## Monetary sector

During 2021, the National Bank made the reduction of the basic interest rate, while the offered amount of treasury bills remained at same level. This maintains the adjustable nature of the monetary policy to macroeconomic and financial conditions, which also contributes to further support of credit flows in the economy. Additionally, at the beginning of August, the National Bank decided to repeal the Decision to limit the distribution and payment of dividends, which was voted in February 2021. The repeal of the Decision was made after a previously conducted detailed analysis of the current circumstances, developments and perceptions of the banking system and the environment in which it operates, considering the results of stress tests on the banking system's resistance to presumed shocks. The National Bank continuously monitored and assessed the monetary stance as appropriate to the existing economic and financial conditions, in conditions of a pandemic characterized by sound economic foundations. At the same time, it is concluded that the Denar exchange rate remains stable in conditions of foreign reserves at an appropriate level and in the safe zone, with the dynamics of change that is expected according to the forecasts.

**Interest rate on treasury bills** was reduced from 1.50% to 1.25% in March 2021.

**Average inflation rate** as measured by the cost of living up to 2021 amounted to 3.2% (2020: 1.2%) while the average retail price index rate amounted to 4.3%.

**Total payment operations in the country realized through banks** as of 30.09.2021 amounted to 16.440,9 billion MKD (EUR 267 billion) which is an increase of 26.1% compared to the same period last year.

**Foreign exchange market turnover** as of 2021 amounted to USD 12.9 billion and was 31.8% higher compared to the same period last year.

**Balance of payments deficit** as of 30.09.2021 amounted to EUR 81 million and was 72.7% lower compared to the same period in 2020 (EUR 296.3 million).

**Foreign exchange reserves** at the end of 2021 amounted to EUR 3.643,3 million and as of the end of 2020 they increased by EUR 283.41 million or 8.4%, generally with deposits as part of the foreign reserves.

**The capital market** as of 2021 records increase in turnover by 56.8% compared to the same period last year, thus total value of turnover amounted to EUR 209 million. MSE10 stock exchange index as of 31.12.2021 was up by 30.8% compared to the same period last year and amounted to MKD 6.153,48.

## Key legislative and regulatory changes affecting operations

During 2021 several laws and bylaws were adopted, and numerous amendments were made to the existing laws and bylaws which affected certain areas of the Bank's operations. Among the most significant changes that have affected the Bank's operations are the following:

- Law amending the Law on the National Bank of the Republic of North Macedonia;
- Law amending the Law on Travel Documents of the Citizens of the Republic of North Macedonia;
- Law amending the Banking Law;
- Law amending the Law on Investment Funds;
- Law amending the Law on Labor Relations;
- Law amending the Law on Securities;
- Law amending the Law on Personal Data Protection;
- Law amending the Law on Employment and Work of Foreigners;
- Law amending the Law on Obligations;
- Law amending the Law on Trade Companies;
- Decision of NBRNM on Temporary restriction of distribution and payment of dividend to the banks' stockholders;
- Decision on submitting and publication of data of performed activities in the payment operations;
- Decision amending the Decision on the manner and the terms under which residents which are not authorized banks may open and hold accounts abroad;
- Decision amending the Decision on the methodology for determining systemically important banks;
- Decision amending the Decision on the methodology for determining the rate of the countercyclical capital buffer for exposures in the Republic of North Macedonia;
- Decision amending the Decision on the manner and the methodology for payment systems oversight;
- Decision on reserve requirement;
- Decision on height of the rate of the countercyclical capital buffer for exposures in the Republic of North Macedonia and for exposures in other countries;
- Decision repealing the Decision on temporary restriction of distribution and payment of dividend to the banks' stockholders;
- Decision amending the Decision on issuing license and approval for providing fast money transfer services;
- Decision amending the Decision on currency exchange operations;
- Decision on accuracy, editing and keeping of personal data;
- Decision on the manner of maintaining and the contents of the single registry of transaction accounts;
- Decision on determining standard contractual clauses for transfer of personal data in third countries;
- Decision amending the Decision on the single tariff of the fees for services provided by the National Bank of the Republic of North Macedonia;
- Decision on determining standard contractual clauses between the controllers and the processors;
- Corrigendum to the Decision on determining standard contractual clauses between the controllers and the processors;
- Decision amending the Decision on preventive recommendations, temporary measures, ordered measures, purpose-built protocols, plans and algorithms for actions for protection of the health of the population from the infectious disease COVID-19 caused by the SARS-CoV-2 virus, the cases and the time of their implementation;
- Regulation on the criteria and conditions for declaring state of crisis in case of weather disasters and natural disasters, failures and disturbances in electrical energy markets, the manner of supply with electrical energy in a state of crisis, the measures which are taken in case of a state of crisis, as well as the rights and the obligations of the holders of licenses for carrying out electrical energy activities;
- Rulebook amending the Rulebook for determining the categories of own funds and the manner of calculation of the amount and the structure of contributions during the incorporation procedure and the assets of the authorized legal entity which it should have at its disposal continuously;

- Rulebook on the manner and the procedure for trade in and settlement of securities transactions on the over-the-counter markets;
- Rulebook amending the Rulebook on form and content of the act on the manner of performing video surveillance;
- Rulebook amending the Rulebook on investment of the capital of the mandatory pension funds;
- Rulebook amending the Rulebook on investment of the capital of the voluntary pension funds;
- Rulebook on the manner and the procedure for selection of sub depositary bank, i.e., specialized depositary institution;
- Instructions amending the Instructions for the manner of conducting payment operations abroad;
- Instructions for implementation of the Decision on the method of determining connected persons/entities and exposure limits;
- Instructions amending the Instructions for implementing the Decision on the method of determining systemically important banks;
- Corrigendum to the Instructions for submission of data on performed activities in the payment operations;
- Instructions for submission of data on performed activities in the payment operations;
- Corrigendum to the Instructions for amending the Instructions for reporting on the prompt money transfer transactions from the National Bank of the Republic of North Macedonia;
- Instructions for amending the Instructions for reporting on the prompt money transfer transactions;
- Protocol for preventive measures for all workplaces.

### III. Banking sector

The banking system, which is characterized by sound fundamentals and high liquidity in 2021, despite the outbreak of the Covid-19 pandemic, remained stable and in good condition, which helped mitigate the shock of the corona-crisis, providing credit support to the economy. In conditions of macroeconomic stability, credit growth and the deposit base were positive in both segments - both households and enterprises. In the first three quarters in 2021, there was realization of credit risk, which is seen through the higher level of non-performing loans, as well as the growth of restructured loans. However, the coverage of non-performing loans with impairments for them is at a relatively high level.

In July 2021, the process of the integration on Ohridska Banka AD Skopje and Sparkasse Banka AD Skopje was officially completed, and thus Sparkasse Banka Ad Skopje entered the group of large banks, occupying the 4<sup>th</sup> position on the banking sector. Thus, the number of banks as of 30.09.2021 decreased to 13 banks, 9 of which with dominant foreign capital. The group of large banks consists of five banks that participate with over 81.3% (2020: 76.5%) in the total net assets, which indicates a high concentration of the banking sector as in previous years. In the total net assets as of September 30, 2021, six banks have a share of less than 5% ( < from EUR 320 million), while the share of savings houses is still insignificant.

During 2021, the National Bank reduced the interest rate on treasury bills to the historic low level at 1.25%. This monetary policy stance contributes to increasing the liquidity of the banking system and supporting credit flows, to mitigate the effects of the prolonged pandemic on the domestic economy. All this together with the high excess of liquidity constantly pushed for reduction of interest rates, primarily for household deposits, while the pressure on loans was more pronounced at companies.

#### Basic indicators

**Table 3.** Basic indicators, 30.09.2021

	30.9.2020	31.12.2020	30.9.2021	Compared to 30.09.2020	
				%	abs
in mil.MKD					
<b>Balance sum</b>	<b>568.174</b>	<b>585.501</b>	<b>608.595</b>	7,1%	40.421
Capital and reserve	67.763	68.175	75.257	11,1%	7.494
Deposits from non-financial sector	413.805	430.870	451.675	9,2%	37.870
Loans to non-financial sector(gross)	348.735	353.502	371.861	6,6%	23.127
Provisions(balance and off-balance)	17.639	18.066	18.135	2,8%	496
Gross NPL(financial and non-financial sector)	12.005	11.895	13.240	10,3%	1.235
<b>Gross profit</b>	<b>5.925</b>	<b>7.925</b>	<b>7.232</b>	22,1%	1307

Source: NBRNM – Supervision, Data, and ratios for banking sector in N. Macedonia

As of 30.09.2021, total loans to the non-banking sector registered growth, compared to the same period last year, of MKD 23.1 billion (EUR 376 million) or 6.6%, whereupon in the segment of population with growth of MKD 14.1 billion (EUR 230 million) or 7.9%, while non-financial corporations (private and public) increased by MKD 8.5 billion (EUR 138 million) or 5.1%. The credit growth on annual basis at non-financial corporations stems from lending MKD, while in the population sector there is higher growth in lending in foreign exchange.

The share of MKD loans in the total loans as of 30.09.2021 is 58.8% (2020: 58.5%). Regarding the maturity structure, 20% are short-term, while 80% are long-term loans (2020: 20.1% short-term, 79.9% long-term).

As of 30.09.2021 total deposits in the non-banking sector registered an annual growth of MKD 37.9 billion (EUR 616 million) or 9.2%, in the population segment with an increase of MKD 18.9 billion (EUR 308 million) or 6.7%, while non-financial corporations (private and public) increased by MKD 18.0 billion (EUR 293 million) or 15.5%.

The share of the MKD deposits in the total deposits as of 30.09.2021 is 58.3% (2020: 60.0%). In terms of maturity structure 35.7% are sight deposits (2020: 35.0%), 42.3% are short-term (2020: 41.2%), while 22.0% are long-term deposits (2020: 23.8%).

The ratio of gross loans/deposits with the non-banking sector as of 30.9.2021 is 82.3% (2020: 82.0%).

### Credit portfolio quality

The share of non-performing loans in the gross loans to the non-banking sector as of 30.09.2021 was 3.5% (2020: 3.3%), whereby the household sector indicator increased to 2.2% (2020: 1.7%), while in enterprises the indicator decreased to 5.0% (2020: 5.1%).

### Financial stability

The liquidity of the banking sector is maintained at a high level. High liquid assets of banks as of 30.09.2021 reached 20.0% (31.12.2020: 21,5%) of the total assets and covers 32.7% of the short-term liabilities (31.12.2020: 35,7%).

Capital adequacy ratio of the banking sector as of 30.09.2021 was 17.3% (2020:16.7%).

### Profitability

As of 30.09.2021 the banking sector had a net profit of MKD 7.223 million (EUR 117.4 million) or by EUR 21.3 million higher than the same period last year when it achieved a profit of MKD 5.913 million (EUR 96.2 million). Increased profitability is a result of more realized net interest income, increase in net exchange rate differences, higher realized net fee and commission income, higher realized other operating income, higher collected previously written off receivables while lower capital gains from sale of assets and higher provisions (corrections) of financial assets.

Interest income, compared to the same period last year, is higher by MKD 85.9 million (EUR 1.4 million) or 0,6%, interest expenses are lower by MKD 257.4 million (EUR 4.2 million) or by 9.9%, while other non-interest income increased by MKD 1.405 million (EUR 22.9 million) or by 22.8%. Operating expenses, employee expenses, depreciation and other operating expenses increased by MKD 648 million (EUR 10.5 million) or by 7.8%.

The allocated impairments and provisions for financial and non-financial assets are lower by MKD 206.1 million (EUR 3.4 million) or 6.5%.

**Table 4.** Profitability indicators of the banking sector, 30.09.2021

in %	30.9.2020	31.12.2020	30.9.2021	Compared to 30.09.2020	
				%	p.p
ROA (gross)	1,4%	1,3%	1,6%	14,4%	0,20 pp
ROE (gross)	12,3%	11,3%	13,4%	9,1%	1,11 pp
Cost/income	47,9%	48,2%	46,9%	-2,1%	-0,99 pp
Staff expenses / Total regular income	21,5%	21,4%	20,2%	-6,0%	-1,28 pp
Staff expenses / Operating costs	44,8%	44,5%	43,0%	-4,0%	-1,79 pp
Non interest income / Total regular income	45,5%	47,6%	51,7%	13,7%	6,22 pp

Source: NBRNM – Supervision, Data and ratios for banking sector in N. Macedonia

### Group of Large Banks (Peer Group)

The Group of Large Banks is comprised of 5 (five) banks with assets over MKD 490 billion (EUR 8.045 million), where the three banks have assets of over MKD 350 billion (EUR 5.762 million), while two banks have assets under MKD 140 billion (EUR 2.283 million).

## Basic indicators

The balance sheet amount of the Group of Large Banks as of 30.09.2021 increased by MKD 59.9 billion (EUR 975 million) compared to the same period last year and their share in the banking sector amounted to 81.3% (2020: 76.5%). Deposits increased by MKD 47.4 billion (EUR 770 million), loans (gross) increased by MKD 36.9 billion (EUR 599 million), the capital is higher by MKD 9.3 billion (EUR 151.5 million) compared to 30.09.2020, while gross profit is higher by MKD 1,2 billion (EUR 20 million) compared to the same period last year.

**Table 5.** Basic indicators, 30.09.2021

in mil.MKD	30.9.2020	31.12.2020	30.9.2021	Compared to 30.09.2020	
				%	abs
<b>Balance sum</b>	<b>434.801</b>	<b>447.890</b>	<b>494.796</b>	13,8%	59.995
Capital and reserve	52.702	52.920	62.016	17,7%	9.314
Deposits from non-financial sector	336.359	350.395	383.723	14,1%	47.363
Loans to non-financial sector(gross)	263.229	266.320	300.098	14,0%	36.868
Provisions(balance and off-balance)	14.632	15.359	16.249	11,0%	1617
Gross NPL(financial and non-financial sector)	10.203	10.441	11.285	10,6%	1.082
<b>Gross profit</b>	<b>5.151</b>	<b>6.791</b>	<b>6.387</b>	24,0%	1236

Source: NBRNM – Supervision, Data and ratios for banking sector in N. Macedonia

## Credit portfolio quality

Regarding the quality of the loan portfolio, the share of non-performing loans in total loans to the non-banking sector in the group of Large Banks as of 30.09.2021 equalled 3.8% (31.12.2020: 3.9%).

## Profitability

As of 30.09.2021, the Group of Large Banks achieved a gross profit of MKD 6.387 million (EUR 103.9 million) or MKD 1.236 million (EUR 20.1 million) more than the same period last year when it achieved a profit of MKD 5.151 million (EUR 83.8 million). The increase in profitability is mainly due to the higher realized net interest income, higher realized net income from fees and commissions, as well as lower value impairments of financial and non-financial assets.

Interest income in relation to the same period last year are higher by MKD 708,6 million (11.5 million EUR) or 6.8%, interest expenses are higher by MKD 114.1 million (EUR 1.9 million) or 6.7%, while other non-interest income increased by MKD 1.063 million (EUR 17.3 million) or by 21.5%. On the expenditure side, total costs (staff costs, depreciation and other operating expenses) were higher by MKD 984,3 million (EUR 16 million) or by 16.6%. Losses due to impairment of financial and non-financial assets as of 30.09.2021 are lower by MKD 334,1 million (EUR 5.4 million) or 12.6%.

**Table 6.** Peer group profitability indicators, 30.09.2021

in %	30.9.2020	31.12.2020	30.9.2021	Compared to 30.09.2020	
				%	abs
ROA (gross)	1,6%	1,4%	1,8%	11,2%	0,18 pp
ROE (gross)	14,0%	12,6%	14,8%	6,2%	0,87 pp
Cost/income	43,1%	43,7%	44,2%	2,4%	1,03 pp
Staff expenses / Total regular income	18,9%	19,2%	18,8%	-0,4%	-0,07 pp
Staff expenses / Operating costs	43,8%	43,8%	42,7%	-2,7%	-1,18 pp
Non interest income / Total regular income	45,4%	47,4%	50,5%	11,3%	5,11 pp

Source: NBRNM – Supervision, Data and ratios for banking sector in N. Macedonia



## IV. Financial results <sup>2</sup>

In 2021, the effects of the pandemic caused by Covid-19 were prolonged, but despite that, the Bank achieved excellent results. The success of the Bank as before is due to the application of high-quality standards in operations, modern information infrastructure, successful market strategy and professional management, strengthened by the brand of the NLB Group.

The results are led by the well-developed client approach, the adjustable offer of the Bank's products as well as the availability of the Bank to its clients, through a developed sales network, 24-hour availability of the Contact Center as well as the developed digital channels. Despite the completely unsurpassed crisis, the Bank continued to continuously lend to the population and the economy and continued with its unreserved support to its customers and the community in general. The excellent financial result that the Bank achieved in 2021 is mainly due to the realization of the following activities:

- High annual growth of the non-banking sector loans by 13.2%, significantly above the percentage of the non-banking sector (8.3%), which results from the growth of the loan portfolio to individuals by 12.2% and the portfolio of legal entities by 15.4%;
- Growth of net-interest income as a result of the portfolio growth;
- Growth of non-interest income due to realized higher income from commissions, income from sale of collected previously written-off receivables and growth of net income from exchange rate differences;
- Redirecting liquidity surplus into investment of Eurobonds traded on foreign markets, foreign bonds, foreign bills and in domestic government bills;
- Expanding the base of clients which use the Bank's products and services.

### Income Statement

**Table 7.** Income statement

in million MKD	1.1.-	1.1.-31.12.2021		Compared to			
	31.12.2020	Budget	Actual	1.1.-31.12.2020		Budget	
1 Interest income	3.329,4	3.376,3	3.322,4	-7,0	-0,2%	-53,9	-1,6%
2 Interest expenses	413,9	298,2	314,2	-99,7	-24,1%	16,1	5,4%
<b>Net interest income</b>	<b>2.915,5</b>	<b>3.078,2</b>	<b>3.008,2</b>	<b>92,7</b>	<b>3,2%</b>	<b>-70,0</b>	<b>-2,3%</b>
3 Fee and commission income	1.737,1	1.928,6	2.073,5	336,4	19,4%	144,9	7,5%
4 Fee and commission expenses	614,3	661,6	871,2	256,9	41,8%	209,6	31,7%
<b>Net fee and commission income</b>	<b>1.122,9</b>	<b>1.267,0</b>	<b>1.202,4</b>	<b>79,5</b>	<b>7,1%</b>	<b>-64,7</b>	<b>-5,1%</b>
5 Net gains/(losses) on financial instruments held for trading	-45,8	-3,9	5,5	51,4	-112,1%	9,5	-240,8%
6 Net foreign exchange gain	239,5	192,1	263,7	24,1	10,1%	71,6	37,3%
7 Net income from other financial instruments designated at fair value	0,5	-0,5	0,8	0,3	74,7%	1,3	-262,4%
8 Other operating income	261,7	200,6	678,8	417,1	159,4%	478,3	238,4%
<b>Net operating income</b>	<b>4.494,2</b>	<b>4.733,4</b>	<b>5.159,4</b>	<b>665,2</b>	<b>14,8%</b>	<b>426,0</b>	<b>9,0%</b>
9 Personnel expenses	824,2	880,8	872,1	48,0	5,8%	-8,7	-1,0%
10 Depreciation	196,0	203,5	228,5	32,5	16,6%	25,0	12,3%
11 General and administrative expenses	896,3	912,1	988,4	92,1	10,3%	76,3	8,4%
<b>Profit before impairment and provisions</b>	<b>2.577,8</b>	<b>2.737,0</b>	<b>3.070,4</b>	<b>492,6</b>	<b>19,1%</b>	<b>333,4</b>	<b>12,2%</b>
12 Reversal of provisions for off-balance sheet items	23,2	0,0	2,3	-21,0	-90,3%	2,3	/
13 Provisions for off-balance sheet items	26,8	0,0	47,7	20,9	77,8%	47,7	/
14 Impairment of financial assets	669,5	735,9	531,1	-138,4	-20,7%	-204,8	-27,8%
15 Provisions for pending lawsuits	0,0	0,0	2,4	2,4	/	2,4	/
16 Losses due to impairment of non-financial assets	50,8	29,3	46,5	-4,3	-8,4%	17,2	58,6%
17 Reversal of provisions due to impairment of non-financial assets	3,4	-3,8	0,2	-3,2	/	3,9	/
<b>Profit before tax</b>	<b>1.857,3</b>	<b>1.968,0</b>	<b>2.445,2</b>	<b>587,8</b>	<b>31,7%</b>	<b>477,2</b>	<b>24,2%</b>
18 Income tax expense	153,1	159,9	226,1	73,0	47,7%	66,2	41,4%
<b>Profit after tax</b>	<b>1.704,3</b>	<b>1.808,1</b>	<b>2.219,1</b>	<b>514,8</b>	<b>30,2%</b>	<b>411,0</b>	<b>22,7%</b>

<sup>2</sup> The positions of the Financial Statements in the Annual Report are consistent with those of the Bank's Financial Statements prepared in accordance with the NBRNM methodology, except where it is necessary to present a clearer presentation. The differences are of a presentation nature, while the final positions (profit and total assets/liabilities) do not differ.

## Profit

In 2021, the Bank realized **profit before tax** in the amount of MKD 2,445.2 million, which is 31.7% higher than the profit realized in the previous year, result which is due to higher total income and lower impairment of financial assets.

**Profit after tax** for 2021 amounted to MKD 2,219.1 million and is higher than the plan by 22.7% as a result of a higher other operating income (collected, previously written-off receivables) and lower impairment of financial assets.

Compared to the previous year, the profit is higher by 30.2%.

**Profit before impairment and provisions** amounted to MKD 3,070.4 million or 12.2% above planned for 2021 and 19.1% higher than the realized in 2020 generally as a result of higher interest income and fee and commission income, net income from exchange rate differences, as well as other operating income.

The total net cost of **Impairment and provisions for financial assets, impairment of non-financial assets, provisions for off-balance sheet and for pending lawsuits** totalled MKD 622.8 million during the year, which is 19.0% lower than planned, corresponding to the portfolio quality and activities, and 13.6% lower compared to 2020.

**Total net operating income** amounted to MKD 5,159.4 million, being 9.0% higher than the plan. Compared to the previous year, the total net operating income was higher by 14.8%.

## Net interest income

**Total net interest income** for 2021 amounted to MKD 3,008.2 million and is lower than planned by 2.3%. Interest income compared to the plan is lower by 1.6% mainly due to lower than planned interest rates. Interest expenses are higher than planned by 5.4% due to higher interest expenses for obligatory reserve in foreign currency.

Compared to 2020, net interest income is higher by 3.2%.

Dominant category in the realized net interest income (66.3% of the total realized net interest income) is **the net interest income from individuals** amounting to MKD 1,994.6 million, which is an increase of 4.1% compared to 2020. The increase is due to a decrease in **interest expenses** by 35.9%, while the **interest income** registered a decrease by 1.5% in the regular portfolio compared to 2020.

Compared to the planned, net interest income from individuals is lower by 10.7%.

**Net interest income from legal entities** amounts to MKD 1,114.9 million, or 4.7% more than in 2020, as a result of decrease of **interest expense** by 41.7% (decrease of interest rates in May and November).

Compared to the planned, net interest income from legal entities are higher by 19.5%.

**Net interest margin on average interest-bearing assets** is 3.43% (2020: 3.66%) and is lower from the planned by 0.30 p.p. (plan: 3.73%) as a result of lower interest income from individuals.

## Net non-interest income

**Total net non-interest income** amounted to MKD 2,151.2 million and compared to 2020 it was higher by 36.3%, due to higher net income from rate exchange differences, net fee and commission income and other operating income (collected, previously written-off receivables, as well as income from consulting services from the operation of Card Competence center).

Compared to the plan, the net non-interest income increased by 30.0%.

Net non-interest income in total income accounts for 41.7% (2020: 35.1%).

The largest share of net non-interest income has net fee and commission income with 55.9% (2020: 71.1%)

## Net fee and commission income

**Total net fee and commission income** amounted to MKD 1,202.4 million and is higher compared to 2020 by 7.1%, while compared to the 2021 plan, is lower by 5.1%.

**Total fee and commission income** compared to 2020 is higher by 19.4% due to higher card income, domestic and foreign payment operations, higher income from business network services (standing orders, handling of transaction accounts and approving overdrafts and over-the-counter services), and higher income from sale of insurance policies. Compared to the plan is higher by 7.5%.

**Total fee and commission expenses** are higher by 41.8% than realized for 2020 due to higher fee expenses from card operations and cash operations, from payment operations in the country and abroad as well as for custodian bank and maintenance of custody accounts. Compared to the 2021 plan, fee and commission expenses are higher by 31.7% due to higher fee expenses from card operations, payment operations in the country and abroad, custodian bank and maintenance of custody accounts.

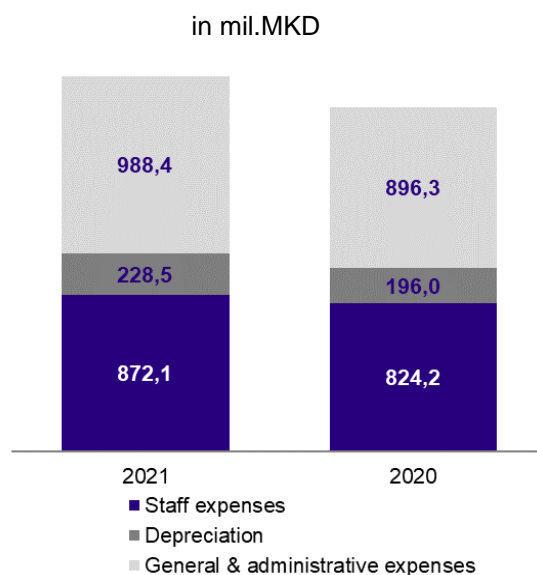
## Costs

**Total operating costs** amounted to MKD 2,089.0 million and compared to the plan are higher by 4.6%, with Staff expenses being lower by 1.0%, Other general and administrative costs being higher by 8.4%, while Depreciation is higher by 12.3%.

Compared to 2020, Total operating costs are higher by 9.0%, whereby Staff expenses are higher by 5.8%, General and administrative costs are higher by 10.3% while Depreciation is higher by 16.6% due to the transfer of certain assets in use.

The ratio of total operating costs to total net income (Cost/Income Ratio) is 40.5% (2020: 42.6%). Compared to the plan, the indicator is lower by 1.7 p.p. (plan 42.2%).

**Chart 1.** Total operating costs



## Balance Sheet and off-balance sheet records

**Table 8.** Balance Sheet

in mil.MKD	31.12.2020	31.12.2021		Structure	Compared to			
		Budget	Actual		31.12.2020	Budget	31.12.2020	Budget
<b>ASSETS</b>	<b>96.545,2</b>	<b>94.564,5</b>	<b>107.709,5</b>	<b>100,0%</b>	<b>11.164,3</b>	<b>11,6%</b>	<b>13.145,0</b>	<b>13,9%</b>
1 Cash and balances with central banks	15.890,5	14.870,7	17.978,9	16,7%	2.088,4	13,1%	3.108,3	20,9%
2 Derivatives	0,5	0,0	0,8	0,0%	0,3	/	0,8	/
3 Loans and advances to banks and saving houses	599,5	617,5	70,8	0,1%	-528,7	-88,2%	-546,7	-88,5%
4 Loans and advances to customers	57.880,6	62.491,9	65.523,2	60,8%	7.642,6	13,2%	3.031,3	4,9%
Non-financial corporations	20.211,9	21.836,2	23.325,6	21,7%	3.113,7	15,4%	1.489,4	6,8%
Private	19.939,8	21.376,5	23.025,1	21,4%	3.085,3	15,5%	1.648,6	7,7%
Public	272,1	459,7	300,4	0,3%	28,4	10,4%	-159,3	-34,6%
Non-profit institutions serving households	17,2	19,4	10,8	0,0%	-6,4	-37,2%	-8,6	-44,2%
State	58,8	133,0	0,3	0,0%	-58,5	-99,5%	-132,7	-99,8%
Households	37.582,3	40.490,6	42.155,1	39,1%	4.572,8	12,2%	1.664,5	4,1%
Other financial institutions	10,4	12,8	31,4	0,0%	21,0	201,4%	18,6	145,8%
5 Investment securities	18.060,5	12.658,4	20.067,3	18,6%	2.006,9	11,1%	7.408,9	58,5%
held to maturity	12.695,1	8.476,4	13.478,8	12,5%	783,7	6,2%	5.002,4	59,0%
available for sale	5.365,4	4.182,0	6.588,5	6,1%	1.223,1	22,8%	2.406,5	57,5%
6 Income tax claims	30,9	0,0	0,0	0,0%	-30,9	/	0,0	/
7 Other assets	1.633,3	1.432,4	1.638,4	1,5%	5,1	0,3%	208,0	14,4%
8 Foreclosed collateral	139,2	110,6	110,1	0,1%	-29,1	-20,9%	-0,5	-0,5%
9 Intangible assets	278,2	335,1	312,4	0,3%	34,3	12,3%	-22,6	-6,8%
10 Property, plant and equipment	2.032,1	2.047,9	2.007,6	1,9%	-24,5	-1,2%	-40,3	-2,0%
<b>LIABILITIES</b>	<b>96.545,2</b>	<b>94.564,5</b>	<b>107.709,5</b>	<b>100,0%</b>	<b>11.164,3</b>	<b>11,6%</b>	<b>13.145,0</b>	<b>13,9%</b>
11 Derivatives	0,0	0,1	0,0	0,0%	0,0	/	-0,1	-100,0%
12 Deposits from banks and saving houses	371,3	344,8	392,7	0,4%	21,4	5,8%	47,9	13,9%
13 Deposits from customers	79.408,5	77.752,0	86.196,4	80,0%	6.787,9	8,5%	8.444,4	10,9%
Non-financial corporations	20.159,6	18.319,8	21.583,1	20,0%	1.423,4	7,1%	3.263,3	17,8%
Private	17.930,0	15.632,3	20.360,1	18,9%	2.430,1	13,6%	4.727,8	30,2%
Public	2.229,6	2.687,4	1.222,9	1,1%	-1.006,7	-45,1%	-1.464,5	-54,5%
Non-profit institutions serving households	848,8	803,5	854,3	0,8%	5,6	0,7%	50,8	6,3%
State	565,2	407,4	523,0	0,5%	-42,2	-7,5%	115,6	28,4%
Households	57.325,5	57.053,9	62.624,2	58,1%	5.298,8	9,2%	5.570,4	9,8%
Other financial institutions	509,5	1.167,4	611,8	0,6%	102,3	20,1%	-555,6	-47,6%
14 Borrowings	422,4	1.235,9	1.518,9	1,4%	1.096,6	259,6%	283,1	22,9%
15 Subordinated debt	1.848,0	1.847,3	2.768,3	2,6%	920,3	49,8%	921,0	49,9%
16 Provisions	255,0	244,2	298,5	0,3%	43,5	17,1%	54,2	22,2%
17 Liabilities for income tax	0,0	0,0	78,7	0,1%	78,7	/	78,7	/
18 Other liabilities	827,2	922,9	2.386,1	2,2%	1.558,9	188,5%	1.463,2	158,5%
19 Profit for the year	1.704,3	1.808,1	2.219,1	2,1%	514,8	30,2%	411,0	22,7%
20 Equity and reserves	11.708,6	10.409,1	11.850,6	11,0%	142,0	1,2%	1.441,5	13,8%

**The balance sum** of the Bank in 2021 amounted to MKD 107,709.5 million. Compared to 2020, the balance sheet amount is higher by MKD 11,164.3 million or 11.6% as a result of higher balance of loans to individuals and legal entities and higher investments in securities.

Compared to the plan, it was higher by MKD 13,145.0 million or 13.9%, as a result of higher balance of loans and investment in securities.

Loan activity during 2021, although affected by the pandemic caused by the Covid 19 was a significant driver and was a support for the population and companies.

**In assets**, the non-banking sector's loan portfolio is higher compared to previous year by MKD 7,642.6 million or 13.2% whereby the loans to individuals increased by MKD 4,572.8 million or 12.2%, while loans to legal entities noted an increase of MKD 3,113.7 million or 15.4%.

Compared to the plan, the loan portfolio of the non-banking sector is higher by MKD 3,031.3 million or 4.9% than planned for 2021. Loans to individuals are higher than planned by 4.1% or MKD 1,664.5 million, while loans to non-financial legal entities are higher by 6.8% or MKD 1,489.4 million. Investments in securities are higher than planned by MKD 7,408.9 million or by 58.5%.

**In liabilities**, compared to the previous year, there was a significant increase in the deposit base to non-banking sector of MKD 6,787.9 million, through an increase of 7.1% in deposits of non-financial legal entities and 9.2% increase in deposits from individuals.

Observed by the maturity structure, the increase stems from the increase in total sight deposits.

**Borrowings** increased by 259.6% compared to 2020 and by 22.9% compared to the plan due to repayment of funds from credit lines through the European Bank for Reconstruction and Development, Development Bank of North Macedonia and Agricultural Credit Discount Fund.

## V. Sales channels and digital transformation

One of the strategic determinations of the Bank is enhanced digitalization and increase of digital penetration of the clients, which should be achieved by providing new digital functionalities and digitalization of the basic products and services of the Bank, as well as strengthening the role of the Contact Center in customer support and when selling various banking products.

In that direction, and in accordance with the guidelines of NLB d.d., in the past year the Bank worked on creating a strategy by channels within which a strong focus is placed on the digitalization of the Bank's operations and enhanced participation of digital channels in the overall performance. The channel strategy of NLB Banka consists of defined strategic goals of all distribution channels of the Bank: branches, contact center, e / m banking, website, ATM, cards, POS terminals and NLB Pay, as well as an action plan with a series of activities whose implementation will contribute to meeting the defined targets.

Key expectations and benefits of the channel strategy are:

- **Increasing the Bank's productivity** - through optimization and process automation it is expected to contribute to increased sales that will be achieved with the same number of employees. At the same time, by reducing the share of cash transactions carried out through the branches and their redirection to digital channels, it is expected to additionally vacate facilities in the branches that will be reassigned to employees with basic advisory function and providing advanced financial advice to clients,
- **Strengthening the Bank's sales capacity** by reducing the FTE (full time equivalent) of employees for simple transaction activities, which frees up resources for increased sales of various financial, banking and non-banking products, which will further contribute to increasing the Bank's revenues,
- **Increasing the quality of service and availability of the Bank** by expanding the offer of various products available through digital channels and providing omni channel customer experience, which will contribute to improving customer satisfaction,
- **Strengthening the capacities of the Contact Center** will contribute to raising customer service and increased customer care, while strengthening the sales function and achieving higher sales results.

In the context of digital progress, the Bank was the first on the market to enable the use of electronic identification in cooperation with Mastercard. Clients have the opportunity for a completely new, digital experience in using the services of NLB Banka, through electronic identification, without the need to visit a branch.

### Branch network

The main channel for servicing customers and sale of products and services of the Bank is the **branch network** (48 branches and 2 counters), through which in 2021 were disbursed 67.5% of the total number of household loans and 96.4% of the total number of loans, with record amounts of new placements on consumer and housing loans, which led to an increase in the market share of the Bank in the area of lending to individuals. In addition to household loans, loans for micro and small enterprises were disbursed through the Bank's business network, payment services were provided to individuals and legal entities, personal banking service was available, sale of non-banking products (pension insurance, life and non-life insurance) and other financial and advisory services to the Bank's clients were provided.

During 2021, through the Bank's branches, 18 sales campaigns for various banking and non-banking products were successfully realized.

At the end of the year, two new products were introduced in the Bank's portfolio with successful start-up, namely Investment Fund Shares in cooperation with General Investments and UnitLinked Life Insurance with investments in cooperation with Triglav Life Insurance.

In October 2021, a new branch office was opened in Skopje, located in the Skopje East Gate Mall. The new branch office is opened according to a new modern concept with a modern interior and a 24-hour self-service zone with a "Cash in" ATM and a Day and Night Treasury for cash payment. The branch office is designed in such a way that the digital experience of the clients is put in the first place through modern kiosks where the clients can perform the basic banking transactions. In

addition, clients are provided with professional staff for advisory services and the sale of more complex banking products.

During 2021, 3 branches were closed – Klinichki centar, Star Aerodrom and Tri Biseri branch. Despite the prolonged extraordinary circumstances caused by Covid -19, the sales network throughout 2021 operated without interruption by properly adjusting the working hours of the branches and in accordance with the measures in force. Appropriate preventive measures were applied to protect the health and safety of the Bank's employees and clients. In that way, continuity in the operation of the branches and successful customer service was ensured.

### Credit intermediaries

Sales through **credit intermediaries** is important channel for the sale of loan products, and the Bank, which is a market leader in the field of lending to clients through credit intermediaries, during 2021 achieved sales of 11,970 loans or over 29% of the total number of placed loans to individuals in 2021.

In 2021, intensive work was done on the development of all functionalities of the Platform for Credit Intermediaries and the production of the solution was realized. This platform will cover a large number of credit intermediaries, which will enable mass expansion of the network of instant credit sales through credit intermediaries. This is expected to increase the placement of instant loans through this channel and planned growth in 2022.

### Contact center

During 2021, the Contact Center continued to develop as an increasingly important channel for customer service and information. The changes caused by the pandemic and the digital transformation of the operations, inevitably change the habits of the clients who are increasingly gravitating towards the digital channels and services, without a physical visit to the Bank's branches.

Such changes have resulted in further increase of the Center's operations on all channels, whereby in 2021 the volume of incoming calls has increased by 40%.

The Contact center realized several campaigns during the year, of which the campaign for obtaining consents for marketing and profiling and the mass SMS campaigns can be singled out as more significant. Also, during 2021, as an activity of the Contact Center, the SMS messages for debt collection from credit cards and loans were returned, this time as part of the new process of debt collection from individuals.

In 2021, the Contact Center increased the number of activities it implements and started with activities for concluding contracts and realization of client requests through the use of the electronic identity eID provided by Eurotrust. This activity is especially relevant and arouses interest because it allows clients to "remotely" perform banking services without visiting a branch.

Also, regular activities such as servicing all incoming and outgoing calls, answering various customer questions, managing complaints, praise and complaints from customers, information and marketing campaigns continued to be carried out continuously throughout the year.

### Electronic and mobile banking

During 2021, various improvements were made to mobile and electronic banking, more in order to improve their functionalities, for a better user experience. The mobile banking application NLB mKlik was enriched with new functionalities, making it more intuitive and comprehensive, and at the same time more secure. It was adapted for use by blind people and was integrated with Customer Relationship Management (CRM) software to send personalized messages and offers to customers.

E-banking has been enriched with a complete online process for applying for a consumer loan, including digital signing of documentation and the opportunity for customers to update their personal data through this channel.

## ATM and POS network

In order to be closer and more accessible to its customers, the Bank acted in the direction of renewal of its ATM network, where the total number of ATMs on the territory of RNM at the end of 2021 is 172 ATMs, 95 of which are with cash payment functionality (Cash in ATMs). Also, the possibility of contactless cash withdrawal has been introduced, as an additional functionality, and as of 31.12.2021 137 ATMs had this option (2020:107 ATMs). The turnover through the **ATM network of the Bank** in 2021 reached MKD 45.9 billion or 14.0% more compared to 2020. Turnover via the Bank's **POS network** increased by 37% compared to 2020. During 2021, the Bank continued the trend of expanding the POS network with terminals that enable contactless payment. As of 31.12.2021, the Bank has a network of 7.067 POS terminals.

In 2021, the Bank established cooperation with 223 active e-commerce merchants. Previous year's growth trend in the operation of the Bank's **internet payment platform** was maintained, with the number of traders having a turnover increased by 40%, while the turnover compared to 2020 increased by 78%.

In order to further protect the merchants-users of the internet payment platform, the Bank has started migrating to 3DS EMV as an improved and newer version of the 3-D Secure protocol, which provides additional level of security for online payments, while on the side of the cards issued by the Bank the RBA (Risk Based Authentication) system was introduced, which contributes to increasing the level of security, speeding up the transaction execution process and improving the overall online user experience.



## VI. Activities with Individuals

The focus of the Bank's operations in 2021 was the increased placement of new loans to increase market share, as well as increased digitalization, which made the Bank's products and services more accessible to remote customers. Also, the Bank introduced new non-banking products, i.e., became an intermediary in the sale and trading of shares and securities, as well as a combination of sale of investment funds with life insurance.

### Loans

The credit offers during 2021 did not experience major changes in terms of commercial conditions. Interest rates and conditions defined in 2020 were accepted by the market. The promotional activities in which the loans were offered without manipulative cost for the consumer loans started in February 2021, and for all other loans from March 2021 and lasted until the end of the year (except August).

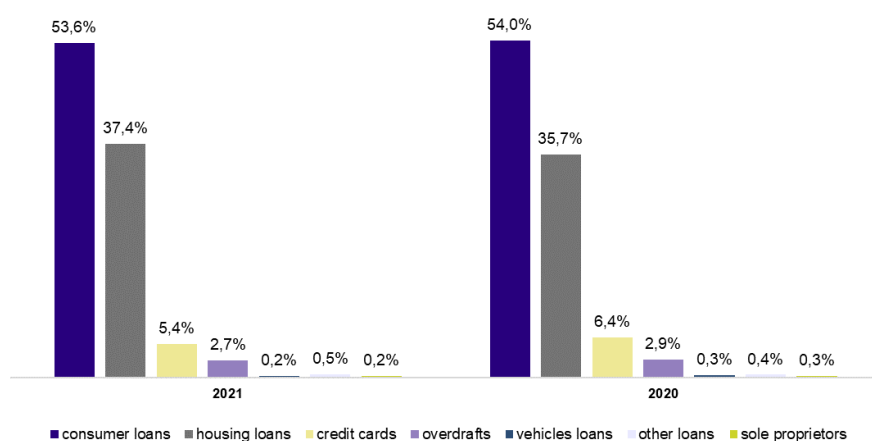
In order to adjust the offer to the market circumstances and the needs of the clients, starting from 01.04.2021, the Bank changed the life insurance products that are offered by cross-selling with consumer loans. The new product "Security Plus" is offered on the market for the first time and is a competitive advantage of the Bank, while at the same time it offers a series of benefits to customers by paying the insurance premium as part of the loan instalment, wider insurance coverage and facilitated admission procedure of the insurance.

In June, a new process of automatic approval of consumer loans through sales network (LOPA) was introduced. This process enabled a simpler and faster process of completion and realization of loan applications. During the year, pre-approved offers for consumer loans were continuously created, which were accepted by clients and were accompanied by high realization, and at the same time created a positive user experience due to the simple approval procedure (no additional documents, with personal document identification only) and payment of the loan funds with only one visit to a branch.

During the year, the Bank applied a cautious approach in approving loan exposures, which contributed to the quality of the loan portfolio to be stable throughout the year. In parallel with the payment activities of the Contact Center, the services of the payment agencies for the so-called mass products (consumer loans and credit cards), which affected the maintenance of low share of **non-performing loans** in the total loan portfolio. Of the total loan exposure to individuals, 1.45% are non-performing loans (2020: 1.54%).

**The loan portfolio of individuals** on an annual basis has increased by 12.0%, i.e., by MKD 4,621.9 million, amounting to MKD 43.293,9 million, with the highest growth of 17.4% compared to 2020 being realized in housing loans, and 11.1% growth realized in consumer loans. The share of gross loans to individuals in the total gross loans of the Bank to the non-banking sector in 2021 reached 61.2% (2020: 61.6%).

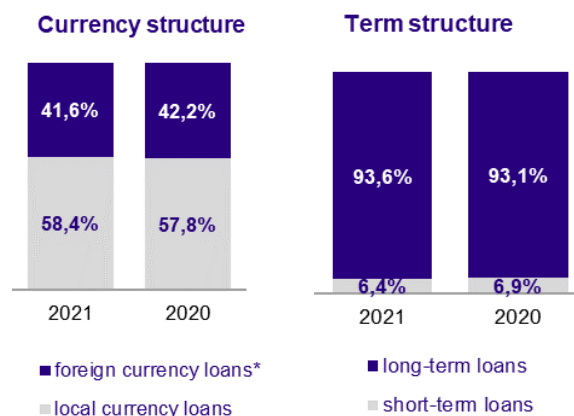
**Chart 2.** Share of loan products in the total loan portfolio of individuals





As of 31.12.2021 the Bank realized a **market share** of 21.6% (2020: 20.8%) of loans to individuals. Analysed by loan products, the increase in market share mostly stems from the increase in housing loans and is due to significant activities in the placement of new loans, including promotional campaigns, proactive approach and offers to customers, but also the improved and optimized application process for consumer loans, which significantly contributed to achieving a record placement of loans.

**Chart 3.** Structure of loans to individuals



\*Loans with FX clause are included in FC loans

## Deposits

The increase of the deposit base realized in 2021 is generally a result of the increase of the number of clients - salary recipients in the Bank, as well as of the increase of the number of pensioners of the Bank.

The growth of deposits in times of continuous reduction of interest rates primarily is due to the increase in the number of transaction accounts, and thus on sight deposits, while term deposits decreased by 11.1% compared to the previous year.

Although, during the year, the structure of deposits changed in favour of sight deposits, the Bank maintains a balanced maturity position of deposits, contributing to stable sources of financing the lending activity.

Interest rates on deposits were reduced several times, ranging from 0.01% to 0.5%.

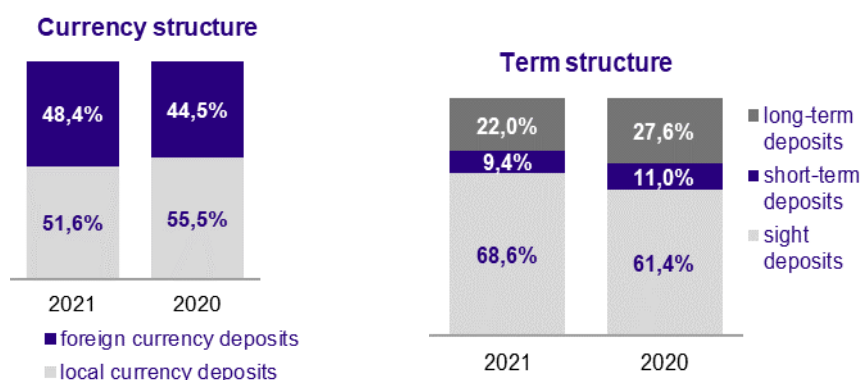
**Deposits from individuals** compared to 2020 increased by 9.2% or MKD 5.298,8 million, amounting to MKD 62.624,2 million.

The share of deposits from individuals in the total deposits of the non-banking sector with the Bank for 2021 is 72.7% (2020: 72.2%).

The **Loans / Deposits Ratio** from individuals is 69.1% (2020: 67.5%).

The **market share of deposits from individuals** as of 31.12.2021 is 20.3% (2020: 19.9%).

**Chart 4.** Structure of deposits from individuals



## Card operations

The focus of the Bank during the year was to maintain the leading position in the market in the field of **card operations** by increasing the turnover through cards, the number of issued cards, increasing the turnover realized through the network of POS terminals as well as improving the functionality of the ATM network. The activities were aimed at increasing customer satisfaction, enriching the functionalities of the existing card products, in order to increase the number of users and the activation of the cards and to increase the volume of use of the Bank's payment cards. In order to increase the activation and use of the cards, the Bank has implemented several promotional campaigns for individuals: a campaign to promote the use of NLB Pay mobile wallet, numerous promotional activities during the Tokyo Olympics for Visa credit card users, as well as a prize game with 126 daily rewards - Private health insurance for NLB Mastercard credit card users. In addition, campaigns were launched for the sale of new cards and increase of credit card limits through the ATM network and online application through the Bank's website.

## Other services of the Bank

**Personal banking** is a unique offer of the Bank that provides clients with first-class treatment in the performance of banking services, flexibility and simpler communication through a personal banker.

During 2021, the personal banking service for individuals was offered in 38 branch offices, and the total number of clients-individuals who used the service as of 31.12.2021 amounted to 6.117.

A significant part of the Bank's wide offer is **NLB Bank Insurance** or the sale of life and non-life insurance policies.

In 2021, the Bank continued to actively promote the sale of insurance policies by adjusting the product offer according to the situation caused by the Covid-19 crisis. In order to increase sales, in the part of cross-selling of "riziko" policies for life insurance with a loan, a new product for collective riziko insurance "Security Plus" was introduced for consumer loans by paying the annual premium in instalments by including in the monthly annuity of the loan. Additionally, the offer of riziko insurance with loan was expanded with insurance for the co-applicant. In 2021, activities were launched to expand cross-selling with other loan products of the Bank, such as the introduction of collective riziko insurance with credit cards and the introduction of life insurance with a savings component related to a loan, for which sales would start in 2022.

In the area of free sale, the Bank expanded its non-life insurance offer by introducing the sale of private health insurance.

Despite the pandemic situation, remarkable results have been achieved through the cross-selling of loan and non-life accident insurance products for every consumer, housing, mortgage and vehicle loan, as well as home insurance with broad coverage, as compulsory insurance for every property that represents collateral for placed housing and mortgage loans. In the area of cross-selling of loan and insurance products from non-life insurance, activities have been started to expand the offer by introducing insurance against insolvency of loan repayment, a product that will be introduced for sale in 2022.

Additionally, the Bank enriched the offer of non-banking financial products with the introduction of the new product - Unit Linked, sale of insurance policies for investment riziko life insurance.

## VII. Activities with legal entities

Working with legal entities<sup>3</sup> as a significant holder of the Bank's income includes: short-term MKD and FX loans for current needs, short-term MKD and FX loans to support export arrangements, revolving loans, long-term MKD and FX loans to finance small and medium-sized enterprises investment projects, vehicle loans, loans for construction of residential and commercial premises, commission loans, letter of credit and guarantee operations, deposit operations, domestic and international payment services, and cash transfer and storage services.

Bank's offer for legal entities is implemented centrally, following the model of integrated management of the Corporate Clients Division together with the Credit Analysis and Administration Division (Department for large, medium and small enterprises), while through the Sales Network - for SMEs, together with the Credit Analysis and Administration Division (Department for micro and small enterprises). Payment services for corporate clients are provided through the Bank's Sales Network, the Cash Services and Depot Division and through the electronic channels.

The legal entities that accepted the moratorium in 2020 successfully came out of it and continued with even better cooperation with the Bank. Numerous sales activities and market initiatives were realized through which small and medium enterprises and large companies were offered loan products for long-term investment projects and working capital, possibility for short-term and fast financing through an overdraft, 24-hour payment services through electronic channels of the Bank, cash management, financial services and consulting for corporate clients active in the regional markets where the NLB Group is present, financial benefits for export-oriented companies, as well as advisory services for capital market transactions.

### Products and market shares

#### Loans

In the area of **lending**, the activities were aimed at increasing the focus on working with small and medium-sized enterprises, where there is high absorption power, greater risk dispersion and a basis for achieving higher interest and non-interest income, primarily in order to maintain and increase market positions.

During 2021 new products for legal entities were promoted, some of which in the form of package loan products for clients:

- From 18.03.2021, a new product package was introduced for leasing companies in East Gate Mall, which consists of overdraft with favourable interest rate, preferential commission for denar payment guarantees and guarantees approved in euros, remittances with lower commission or without commission, as well as approval of Mastercard Business debit card and Visa Business revolving card without application fee and membership fee for the first year,
- From 01.04.2021 the service for managing a denar transaction account in the Basic Business Package with a free Business Debit Card and free electronic / mobile banking with the right of review has been upgraded,
- From 29.10.2021, new loan products from the credit line EIB VI - investment loan for SMEs and medium-capitalized companies (MidCap) and loan for permanent working capital for SMEs and MidCap were introduced.

In order to increase the attractiveness of the offer, periodically, within the promotional campaigns, lower interest rates were offered for certain products for small, medium and large enterprises, which were approved without commission. In this regard, the following promotional campaigns were conducted:

- From 20.05.2021 to 30.09.2021, a campaign was conducted for approval of promotional Denar and foreign currency long-term loans for taking over exposures from other banks with favorable interest rates for A, BBB and BB clients.

<sup>3</sup> The positions of the Financial Statements in the Annual Report are consistent with those of the Bank's Financial Statements prepared in accordance with the NBRNM methodology, except where it is necessary to present a clearer presentation. The differences are of a presentation nature, while the final positions (profit and total assets/liabilities) do not differ.

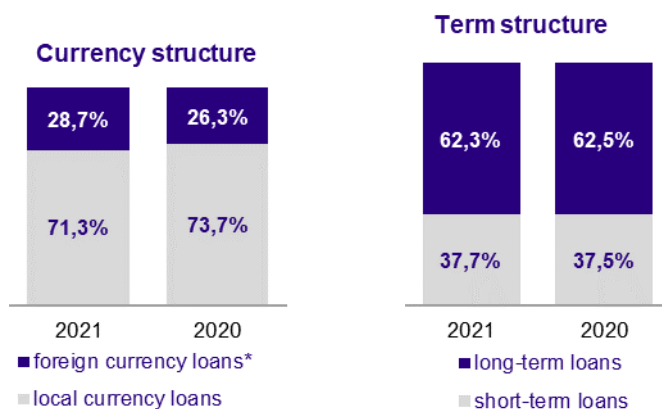
- From 21.10.2021 to 31.12.2021, a campaign was conducted for approval of promotional pre-approved O2 revolving loans and denar short-term loans, as well as a long-term loan of 84 months with promotional conditions, for clients with AA, A, BBB and BB creditworthiness.
- From 11.11.2021 to 31.12.2021, a campaign was conducted for approval of pre-approved denar long-term loans for 36 months, overdrafts, fast loans through intermediaries as well as approval of Visa business and Master business credit and MasterCard Business debit card without commission for the first year,
- Promotional campaign for approval of Overdraft - allowed overdraft on the account of legal entities in the period from 15.11.2021 to 31.12.2021, in order to increase the placement of loans and appropriate response to the offer of competing banks, within which all loans were approved without commission,
- Promotional campaign for approval of O2 limit of legal entities in the period from 15.11.2021 to 31.12.2021, in order to increase the placement of loans and adequate response to the offer of competing banks, within which all loans were approved with reduced interest rate and without commission.
- Preferred loans for companies with B and better rating in accordance with the financial capacity, the policy for approval of placements and the pre-scoring model.

The interest rates during the year were adjusted to the market conditions in order to bring the Bank's offer closer to the clients as well as to meet their needs for easier overcoming of the economic crisis caused by Covid-19.

As of 31.12.2021 **loans to legal entities** amounted to MKD 27,436.1 million, being an annual growth of 13.8% i.e., MKD 3,316.9 million as a result of the increase of placements of private enterprises during the year.

In 2021, the share of non-performing loans in total loans to legal entities increased to 9.7% (2020: 8.5%), as a result of the transfer of several corporate clients to non-performing. The share of gross loans to legal entities in the total gross loans to non-banking sector is 38.8% (2020:38.4%).

**Chart 5.** Structure of loans to legal entities



\*Loans with FX clause are included in FC loans

## Deposits

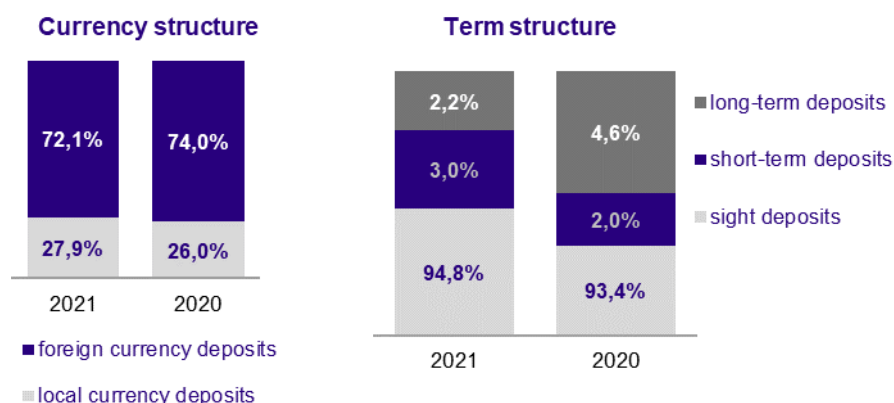
In the field of **deposit operations**, the offer for corporate clients was presented through MKD and FX deposit products with different term opportunity and interest rates. In 2021, the interest rates on deposits of legal entities were changed in direction of their decrease.

**Deposits from legal entities** amounted to MKD 23,572.2 million annually and were higher compared to 2020 by MKD 1,489.2 million or 6.7% mainly due to higher gyro account balances and

increase of sight deposits of private companies, as well as increase in short-term deposits in domestic and foreign currency.

The share of deposits of legal entities in the total deposits of the Bank's clients in 2021 is 27.3% (2020: 27.8%).

**Chart 6. Structure of deposits to legal entities**



**Loans (gross)/deposits** ratio from legal entities is 116.4% (2020:109.2%).

As regards **market shares**, the market share in loans of nonfinancial legal entities as of 31.12.2021 is 14.9% which represents an increase of 0.7 p.p. (2020:14.2%). Market share of deposits is 15.6% (2020:16.3%).

## Project financing

Starting from the basic success factor - KYC (Know your client), NLB Bank has established strong and long-term cooperation with its clients, especially with those with approved project financing, considering the previous experiences of the Bank in this area.

By providing all the analysis by the client, the recognition of the potential for the proposed project, the cooperation on a daily basis with the clients, as well as the experienced staff, i.e., the motivated and focused professional team dedicated to each project (with the participation of employees from several sectors of the Bank) in 2021 significant results were achieved in the field of project financing.

Most of the loans disbursed in the past period intended for project financing are concentrated in two sectors: renewable energy sources and construction.

## Support for Startup companies

The role of NLB Banka in the development of companies and the start-up community is very large, given the great expert support from the professional services, personal bankers for legal entities in the branch network as well as the individual approach and personalized offers that the Bank offers to customers. In the past period, a corporate partnership was established together with Start-up Macedonia (organization for creating a start-up eco-system), as well as concluded cooperation with FITR (Fund for Innovation and Technological Development). These collaborations will help the development of entrepreneurship in RN Macedonia, considering the offer of NLB Banka - Business package for start-up companies and Innovator Package - hybrid financing.

The focus of the Bank in the coming period is to expand the offer for start-up companies, increased role of the Bank in the ecosystem, participation in the preliminary stages of the process of creating start-up companies, as well as their digitalization.

## Domestic and foreign payment operations <sup>4</sup>

In the **domestic payment operations** segment, in 2021, 32.1 million transactions were realized in the interbank payment operations, which is an increase of 36.7%. (31.12.2020: MKD 23.5 million transactions).

In 2021 **foreign currency payment operations** were realized in an amount of EUR 2.7 billion or 14.7% more than in 2020, as a result of increased turnover in nostro and loro remittances by volume and by number.

Table 9. Remittances

	31.12.2020	31.12.2021	Change 2021/2020	
<b>Nostro remittances</b>				
<b>Turnover (mil. EUR)</b>	<b>1.164,9</b>	<b>1.309,0</b>	<b>144,1</b>	<b>12,4%</b>
Individuals	33,3	40,2	6,9	20,6%
Legal entities	1.131,5	1.268,8	137,3	12,1%
<b>Number of nostro remittances</b>	<b>64.762</b>	<b>71.273</b>	<b>6.511</b>	<b>10,1%</b>
Individuals	7.958	8.730	772	9,7%
Legal entities	56.804	62.543	5.739	10,1%
<b>Loro remittances</b>				
<b>Turnover (mil.EUR)</b>	<b>1.181,1</b>	<b>1.382,8</b>	<b>201,7</b>	<b>17,1%</b>
Individuals	112,8	133,9	21,1	18,7%
Legal entities	1.068,3	1.248,9	180,6	16,9%
<b>Number of loro remittances</b>	<b>127.343</b>	<b>139.507</b>	<b>12.164</b>	<b>9,6%</b>
Individuals	69.698	77.193	7.495	10,8%
Legal entities	57.645	62.314	4.669	8,1%

## Other Bank's services

The Bank participates in international payments by issuing documentary instruments to its clients. And in 2021 the Bank granted **bank guarantees and letters of credit** according to the clients' needs. As of 31.12.2021, the Bank has issued guarantees in the amount of MKD 5,100.0 million, which is 1.8% less than in 2020. The open letters of credit are worth MKD 3,184.1 million, which is an increase of 93.9% compared to 2020.

Table 10. Documentary work

	01.01.- 31.12.2020	01.01.- 31.12.2021	Change 2021/2020	
<b>Guarantees</b>				
Value of issued during the year (mil. MKD)	5.195,3	5.100,0	-95,3	-1,8%
Number of issued during the year	3.040	3.288	248	8,2%
<b>Letters of credit</b>				
Value of issued during the year (mil.MKD)	1.642,4	3.184,1	1.541,6	93,9%
Number of issued during the year	268	326	58	21,6%

The slight decline in guarantees results from a decrease in number and value of MKD and nostro foreign currency guarantees.

The increase in letters of credit is a result of a larger number issued nostro, as well as received loro guarantees, with higher amounts compared to letters of credit opened in 2020.

The Bank provides services for the needs of other legal entities in the area of **cash management**: cash transport and value consignments, processing of domestic and foreign currency, foreign cash transfer to foreign banks, cash and securities storage, depot services, purchase and sale of domestic and foreign cash, servicing ATMs for other business banks, supplying MKD cash in exchange for F/X cash for an exchange office, taking over the daily sales from the premises of

<sup>4</sup> The data on the total payment operations include the transactions by individuals

legal entities and transport them to the Bank, processing banknotes and coins and depositing on the transaction account of the legal entity.

In 2021, the Bank's Treasury ensured continuity of operations, both for the branches and for its clients. Despite the specific conditions caused by Covid 19 in the last two years, the Treasury successfully coped with the challenges in 2021 and managed to achieve an increase over the previous year in almost all segments of its operations.

During 2021, gross turnover of the Bank's Central Vault amounted for MKD 5.1 billion, which is an increase of 20% compared to 2020. The increase of its operations is due to the improved working conditions after the high negative effect of the pandemic caused by covid 19 which led to a decrease in all segments in 2020. In 2021, growth was realized in all parts of the treasury operations, Denar and foreign currency grants and ATM operations.

In the area of work with legal entities (effective collection from locations, transportation, processing and payment on transaction accounts), the Bank has expanded its cooperation with ten new legal entities.

The Central Treasury significantly participates in the processing of the daily market by legal entities, where the share in these services during 2021 was on average about 40% of the total daily market input by legal entities.

### **Card competence center**

NLB Banka AD Skopje within the Competence Center for card systems in Skopje provides consulting services in the field of card operations for 5 banks in the NLB Group. In 2021, through the work of the Center, the Bank was actively involved in the process of joining a new member to the Group, conducting projects and cost analysis for implementation of new services and products, facilitating the processes of member banks for certification, establishing an initial set up for risky e-commerce transactions etc.



## VIII. Financial markets

### Liquidity management

During 2021, the Bank managed MKD and FX liquidity in accordance with the laws and bylaws regulating liquidity risk management and the acts applicable at the level of NLB Group, while respecting the defined regulatory and internal liquidity risk exposure limits.

The free assets were placed in securities issued by the government and the NBRNM, on the domestic and foreign capital market, in securities issued by EU countries, on the interbank deposit market, as well as through the NBRNM monetary instruments. The type, manner and instruments used to place the surplus are determined by the current and expected maturity structure of the short- and long-term assets and liabilities, the risk of the instruments and the interest rate movements in the money and securities markets.

#### Debt Securities 31.12.2021

12,090 mil.MKD nominal value in debt securities

1,726 mil.MKD treasury bills

91.5 mil.EUR in Eurobonds

The Bank's obligation reserve requirement in MKD and in foreign currency was fulfilled on a regular basis in the period from 01.01. – 31.12.2021. Structural liquidity indicators, including indicators under the Basel III - LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), were maintained above the prescribed minimum levels during 2021, indicating a consistently stable and high liquidity position of the Bank throughout the year.

On the interbank' deposit market, the Bank appeared as a seller depending on the daily needs of the funds, as well as the strategy and manners of liquidity management in a given period.

During 2021, the Bank also invested in government securities issued on the international capital market - Eurobonds in the total nominal amount of EUR 15.0 million.

### Credit sources of financing

During 2021, the Bank continued to continuously monitor and service its liabilities under concluded credit arrangements with domestic and foreign creditors, as well as withdrawing new funds for financing investment projects and for working assets.

During the year, MKD 169 million were repaid by separate credit lines, with withdrawal of funds in total amount of MKD 1.261 million, after which the balance of the Bank's credit liabilities as at 31.12.2021 increased by 259% compared to previous year.

Also, in December 2021, the Bank concluded an Agreement with the European Bank for Reconstruction and Development (EBRD), for long-term loan in the amount of EUR 5 million intended to support the competitiveness of small and medium enterprises (Regional Small & Medium-sized Enterprises Competitiveness Support Programme). This credit line provides financial incentives for clients who will successfully implement their projects.

In 2021, funds are withdrawn from the following credit lines:

- European Bank for Reconstruction and Development (EBRD) - of the Green Economy Financing Facility II for residential sector credit line in total amount of EUR 2.2 million (MKD 135.0 million) intended for further financing of energy efficient projects in the residential sector, i.e., for individuals or groups of individuals, housing associations and housing management companies, service providers (including ESCO), vendors and manufacturers;
- European Bank for Reconstruction and Development (EBRD) - of the Regional Small & Medium-sized Enterprises Competitiveness Support Programme credit line in the total amount of EUR 3.8 million (MKD 233 million), 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, employee safety and product quality and safety, as well as investment in high-performance technologies;
- Development Bank of the Republic of North Macedonia (RBSM) - two tranches of the EIB 6 credit line in the total amount of EUR 14.5 million (MKD 890 million), intended for financing working capital and investment projects;



- Agricultural Credit Discount Fund (ACDF) (credit line arranged through the Development Bank of North Macedonia) for financing projects in the primary production segment, processing of agricultural products and trade in agricultural products in the amount of MKD 2.9 million.

In December 2021, the Bank entered into an Agreement with Nova Ljubljanska Banka d.d., Ljubljana for a subordinated loan in the total amount of EUR 15 million, which is considered Tier II capital in accordance with the Decision on the methodology for determining capital adequacy.

## Commission operations

During 2021, the Bank continued to implement the project "Self-employment with lending", as an active self-employment measure implemented by the Employment Agency of the Republic of North Macedonia, following a concluded contract in May 2008 with the Development Bank of North Macedonia.

Throughout the year, the Bank mediated the financing agreements with funds from the Macedonian Enterprise Development Foundation, the Agricultural Credit Discount Fund and other institutions in concluding new commission loans and deposits, as well as servicing the existing ones.

## Foreign exchange market

In 2021, the Bank realized total turnover on the foreign exchange market in the country in the amount of USD 3,1 billion (2020: USD 2,5 billion) realized through 78,705 transactions (2020: 71,139), which is an increase of turnover by 26.14%. Most of the Bank's turnover on the foreign exchange market relates to euro currency purchase and sale, with a percentage share of 51.75% in purchasing and 88.46% in sales. The Bank's market share on the foreign exchange market as at 31.12.2021 is 24.21%.

In terms of increased competition and increased number of trading participants, the Bank remains the market leader in the trading with foreign exchange from authorized exchange offices. In 2021, a purchase amounting to EUR 645 million (2020: EUR 429 million) was realized, which represents 58.33% of the total purchase of foreign currency from authorized moneychangers by banks in the country.

Six new agreements have been concluded with clients for their use of the electronic Trading platform on the FX market, bringing the total number of clients using the Platform as of 2021 to 83. The Bank has introduced a mobile application for trading on the FX market for legal entities.

On the interbank FX market, in 2021, the Bank successfully performed the role of an authorized market supporter, through active participation with stable quotations on both the supply and demand side. In 2021, the Bank realized a share of 41.37% in the total interbanking foreign exchange market turnover in the country.

On the international foreign exchange market, EUR 1.52 billion (2020: EUR 997.5 million) were traded through 10,181 purchase and sale transactions (2020: 8,762).

## Trading in securities on behalf of the Bank's clients

In 2021, the Bank on behalf of the clients recorded MKD 20,737.5 million of government securities, which is a slight decrease of 0.01% compared to 2020 when the amount of MKD 20,891.5 million was recorded. Of the total amount, 28% (MKD 5,891.6 million) were realized through auction of government bonds, and 72% (MKD 14,845.8 million) were auctioned with treasury bills.

## Custodian and brokerage services

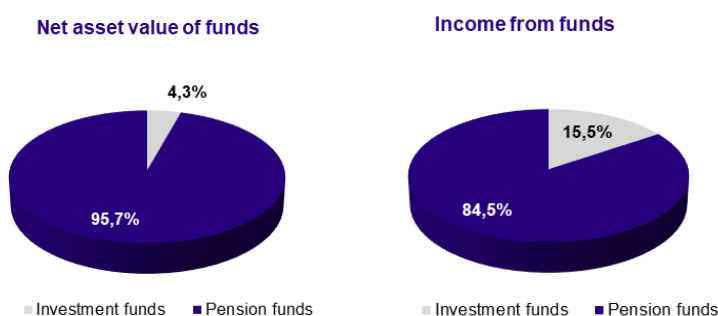
### Custodian services

During the year, the Bank provided custodian services for investment and pension funds, for non-residents trading on the Macedonian securities market, and for domestic clients investing in FX securities.

As a custodian bank the Bank provides services to two pension funds and as a depository bank to eight investment funds, including the four new funds taken over in 2021 by the Investment Fund Management Company "General Investments AD Skopje".

The total income of the Bank from the investment funds in 2021 amounted to MKD 3.1 million, which is of 55% compared to the income realized in 2020 (2020: MKD 2 million), while the total pension fund income realized in 2021 amounted to MKD 16.9 million or 10.2% more compared to 2020 (2020: MKD 15.3 million)

**Chart 7. Net asset value and income (participation)**



#### Funds through numbers

##### Investment funds

2,250.2 mil.MKD total assets

##### Pension funds

49,594.9 mil.MKD total assets

### Brokerage services

Total turnover on the Macedonian Stock Exchange in 2021 reached MKD 12.9 billion, which represents an increase of 56.8% compared to the previous year as a result of increase in block transactions of almost 200% compared to 2020. In the classic trading, the increase is 12.5%.

#### Macedonian Stock Exchange 31.12.2021

Total turnover on the MSE: 12.9 billion MKD

Bank's market share: 5.71%

Domestic legal entities and individuals had dominant share in the trading in 2021 both on the purchasing and selling side.

The Bank's market share in the total turnover of the Stock Exchange amounted to 5.71%, which is a decrease of 2.34 p.p. (2020: 8.05%).

The service of securities trading and safekeeping on foreign markets is taking an increasingly significant share in the total realized turnover of the market participants in the country. In 2021, the share of the turnover realized on foreign markets, in the total realized turnover of the market participants is 16%. As of 31.12.2021, over 250 clients have signed an agreement with the Bank for these services, and the total turnover of MKD 494.1 million was realized (2020: 537.8 million MKD). The total value of the portfolio in foreign securities, which the Bank keeps for the account of the clients as of 31.12.2021 is MKD 420.2 million (2020: MKD 229.9 million).

#### Foreign markets 31.12.2021

Total turnover: 494.1 mill.MKD

Value of portfolio of foreign securities: 420.2 mill.MKD

## IX. Risk Management

The Bank implements a highly conservative policy of anticipating operating risks by maintaining an effective system of integrated risk management. This enables high collectability of loans, satisfactory levels of capital adequacy, protection from unforeseen events and possible threats of failure to implement the planned policy, to be realized. During the year, the Bank revised its Strategy for undertaking and managing risks and policies in the field of risk management and made alignment with Risk Management Standards adopted by NLB d.d.

### Credit risk management and quality of the loan portfolio

Credit risk management includes permanent analysis of the Bank's loan portfolio, in regard to division's diversification and concentration of the portfolio, analysis and evaluation of client's financial performance, monitoring the regularity in fulfilling the obligations by clients and applying a satisfactory level of loan provisions.

The Bank's total exposure (portfolio on which provisions are calculated) in 2021 increased by MKD 10,735.8 million and amounts to MKD 90,415.5 million (2020: MKD 79,679.7 million).

The loans coverage rate with provisions decreased by 0.4 p.p. and amounts to 6.0% (2020: 6.4%).

The share of A and B loans in the total portfolio on which reservations are calculated at the end of 2021 was 95.3% (2020: 95.3%).

The share of nonperforming loans in total loans in 2021 was 4.7% (2020: 4.2%).

The coverage of loans classified in C, D and E risk category with total allocated reserves amounts to 127.1% (2020: 136.9%).

#### Loan portfolio 31.12.2021

Portfolio on which provisions are calculated: MKD 90,415.5 million

Share of A and B loans: 95.3%

Share of nonperforming loans: 4.7%

Coverage rate with provisions: 6.0%

Coverage of C, D and E risk category loans: 127.1%

### Non-Credit Risks Management

The Bank has established policies to monitor non-credit risk. The Bank monitors and manages liquidity, currency, interest, operational, legal, strategic and reputational risk, and at the same time information system security is monitored and managed.

#### Liquidity Risk Management

In 2021, liquidity risk exposure was monitored on a regular basis. Operational and structural liquidity was within the established limits and warning levels.

During 2021, stress tests on the Bank's exposure to liquidity risk were conducted on a monthly basis, indicating a high and stable liquidity position of the Bank. According to the results of the conducted stress testing on the liquidity risk, the Bank has sufficient CBC (counterbalancing capacity) and inflows to cover outflows and survive a period of 3 months in conditions of adverse combined stress scenario; thereby, the Bank realizes liquidity surplus.

The liquidity position during 2021 enabled timely and smooth servicing of the Bank's liabilities.

#### Foreign currency Risk Management

Currency risk management refers to the continuous monitoring of the Bank's net exposure by separate currency and aggregate, while maintaining an optimal level of required funds through the purchase and sale of foreign currency.

The Bank's exposure to currency risk is monitored on a daily basis by monitoring the realization in relation to the limits set by separate currency and on aggregate basis. During 2021, the Bank adhered to the set currency risk limits (limit: +/- 30% of common capital).

The total open currency position calculated on a net basis on 31.12.2021 represents a long position and amounts to MKD 418 million, i.e., 3.56% of the Bank's common capital.

The largest part of the open currency position comes from the long position in the EUR currency, amounting to MKD 144 million or 1.23% of the Bank's common capital.

In 2021, stress tests of the Bank's exposure to currency risk were conducted on an annual basis,

with the capital adequacy ratio being stable and satisfactory, applying the most conservative scenario.

## Interest Rate Risk Management

The Bank's activities in the area of interest rate risk management relate to the optimization of the economic value of the capital and net interest income in relation to changes in market interest rates that are consistent with the Bank's business strategy.

In terms of sensitivity of the economic value of capital, the Bank monitors the interest rate risk exposure by applying the Interest Risk Management Methodology, which includes calculation and allocation of 'Core' sight deposits in appropriate maturity blocks, in period of 10 years; new elements in interest rate risk management (non-performing exposure, off-balance sheet exposure, before due date credit repayment rate and automatic options). The Bank monitors the interest rate risk exposure based on six regulatory prescribed scenarios (parallel shock up + 200bp/400bpMKD; parallel shock down - 200bp/400bpMKD; steep shock; downward shock; short-term rate shock upward and short-term rate shock downward). The Bank's total exposure to interest rate risk represents the largest negative value of the EVE (Economic Value of Equity) indicator of the regulatory prescribed scenarios. The Bank's total interest rate exposure as at 31.12.2021 amounted to MKD 498 million, i.e., 4.24% of the Bank's common capital, based on the EVE indicator in the scenario parallel shock up + 200bp/400bpMKD.

### Interest Rate Risk indicators 31.12.2021

EVE (Economic Value of Equity): 4.24%  
NII indicator: 1.68%  
Total Weighted Value/Own Funds:  
16.92%

In terms of the sensitivity of net interest income, the Bank measures the impact of interest rate changes on net interest income over a period of one year, assuming a parallel increase in market interest rates by one hundred basis points. The Bank's sensitivity indicator of net interest income (NII indicator), on 31.12.2021 amounted to MKD 198 million, i.e., 1.68% of the Bank's own funds.

Within interest rate risk management, the Bank calculates and monitors the "credit spread" risk exposure (CSRBB), which represents the risk of change in the value of debt securities as a result of changes in the credit margin on the market. The Bank's exposure to credit spread risk (FV-OCI portfolio) on 31.12.2021 amounted to MKD 128 million, i.e., 1.09% of the Bank's common capital; the Bank's exposure to credit spread risk (FV-OCI and AC portfolio), on 31.12.2021 amounted to MKD 474 million, i.e., 4.03% of the Bank's common capital.

Total Weighted Value/Own Funds indicator, throughout the year 2021 was within the prescribed limit of 20% of the Bank's own funds, in accordance with the NBRNM's Decision for the interest rate risk change management in the banking book. Total Weighted Value/Own Funds indicator on 31.12.2021 amounted to 16.92% of the Bank's own funds.

Based on monthly monitoring of the fulfilment of the interest rate exposure limits, it is established that during 2021, the calculated BPV and CSRBB indicators, the NII indicator and all other indicators defined in the Interest Rate Risk Policy are within the prescribed limits.

In 2021, stress tests of the Bank's interest rate risk exposure were conducted on monthly basis, within the prescribed scenarios in accordance with the Interest Risk Management Methodology. The results of the performed stress tests indicate that the Bank has a relatively low sensitivity to changes in market interest rates. The Bank's exposure to interest rate risk is at a stable moderate level.

## Operational Risk Management

Operational risk management presupposes a system for recording, monitoring, controlling and dealing with potential and real harmful events arising from the Bank's current operations or external factors that have a negative effect on the financial result.

During 2021, the Bank revised its Operational Risk Management Policy according to which the Operational Risk Committee meets quarterly. Harmful events in the area of operational risks were actively monitored and recorded, and reports were prepared and presented to the Bank's authorities (Risk Management Committee and Operational Risk Commission).

The net loss from operating risks during 2021 was within the set tolerance limit and the Bank's Risk Appetite.

During 2021, the Bank conducted a sensitivity assessment of operational risks with high financial impact and low frequency through a scenario analysis method. The analysis covered the following operational risks: internal crime, card fraud, external crime, strike, core banking system failure, natural disaster (flood, fire, earthquake), digital space attacks and/or internal attacks using IT assets, IT security risk, risk of pandemic, risk of major regulatory changes and risk of robbery of a vehicle transporting money. Based on the conducted sensitivity analysis of these risks, it has been concluded that no control mechanisms check, or introduction of additional measures are needed to reduce the operational risks that have a high impact on the Bank's solvency and profitability and low frequency.

## Capital and Adequacy Management

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

- Regular core capital rate (CET1 ratio) = CET1 capital/RWA (risk-weighted assets) = min. 4.5%;
- Core capital rate (T1 ratio) = T1 capital/RWA = min. 6%; and
- Total capital ratio = Total capital/RWA = min. 8%.

In addition, the NBRNM's Governor may prescribe higher rates than stated in the preceding paragraph, if necessary because of the nature, type and extent of the Bank's activities and the risks to which it is exposed as a result of those activities, including risks arising from macroeconomic environment, based on the implementation of the annual Supervisory Review and Evaluation Process (SREP-Pillar 2).

The supervisory rating of the minimum required level of capital is based on the assessment of the Bank's overall risk profile, which includes the assessment of the Bank's business model, the Bank's corporate governance, the Bank's liquidity position and the risks to the Bank's capital position (at least credit risk, operating risk, currency risk and the risk of interest rate changes in the banking book). At least once a year, the NBRNM assesses the minimum required level of capital for the Bank which refers to the following year. Based on the supervisory assessment of the Bank's risk profile, the NBRM determined an increase of 3.25 percentage points above the minimum legally established level of capital adequacy, so that the Bank is obliged to maintain the capital adequacy at a level higher than 11.25% during 2022.

During 2021, the Bank was obliged to maintain **capital buffers**, as follows:

- Capital conservation buffer defined as 2.5% of risk weighted assets;
- Systemically important banks buffer as 2.0% of risk weighted assets. Systemically important banks buffer is designated once a year by the NBRNM until April 30 and can range from 1% to 3.5% of risk weighted assets;
- Countercyclical capital buffer of 0%;
- Systemic risk buffer defined as a % of risk weighted assets estimated by the NBRNM for all banks, or for each bank, and may range from 1% to 3% of risk weighted assets. The systemic risk buffer is not currently applicable to the Bank (0%).

The total capital adequacy ratio that the Bank was to maintain for 2021 was 15.00% (2020: 15.00%). The bank should achieve and maintain an adequacy rate of 15.75% no later than 31.03.2022.

**Table 11:** NLB Banka AD Skopje, minimum capital requirements (Tier1, Tier 2 and total amount of capital buffer)

		2020	2021	New requirements from the Central Bank	Date of validity
<b>Pillar 1</b>	CET 1	4,50%	4,50%		
	Tier 1	6,00%	6,00%		
	Total capital	8,00%	8,00%		
<b>Pillar 2</b>	Total capital	3,00%	3,00%	3,25%	01.01.2022
<b>Total SREP Capital requirement (TSCR)</b>	CET 1	7,50%	7,50%	7,75%	01.01.2023
	Tier 1	9,00%	9,00%	9,25%	01.01.2023
	Total capital	11,00%	11,00%	11,25%	01.01.2022
<b>Combined Buffer requirement (CBR)</b>					
Conservation buffer	CET 1	2,50%	2,50%		
SII buffer	CET 1	1,50%	1,50%	2,00%	31.03.2022
Countercyclical buffer	CET 1	0,00%	0,00%		
Systemic risk buffer	CET 1	0,00%	0,00%		
<b>Overall capital requirement</b>	CET 1	11,50%	11,50%	12,25%	01.01.2023
	Tier 1	13,00%	13,00%	13,75%	01.01.2023
	Total capital	15,00%	15,00%	15,75%	31.03.2022
	Total capital + management buffer	15,50%	15,50%	16,25%	31.03.2022

During 2021, the Bank's capital adequacy was maintained at a level of over 15.45%, and on 31.12.2021 it equalled 18.0% (2020: 15.7%). The Bank has complied with regulatory requirements for minimum statutory capital adequacy ratios, including the requirements for the maintenance of capital buffers, as well as capital buffer in accordance with the Supervisory Rating of the National Bank of the Republic of North Macedonia for the minimum required capital level (Table 11). Significant increase of the Bank's own funds was realized in November 2021, as a result of the adopted Decision on use of the accumulated profit of NLB Banka AD Skopje for 2019 and 2020 by the Bank's Shareholders Assembly at the meeting held on 19.11. 2021 which increased the general reserve fund by MKD 1.2 billion. Another significant increase in own funds was made in December, with the conclusion of the agreement with Nova Ljubljanska Banka d.d. Ljubljana for a subordinated loan in the amount of fifteen million euros. Additionally, as of 31.12.2021, the Bank included part of the profit realized in 2021 (in the amount of MKD 666.4 million) in the calculation of the regular core capital, with the prior consent of the NBRSM.

The Bank's total risk weighted assets on 31.12.2021 amounted to MKD 83,342.1 million (2020: MKD 74,643.1 million) and is higher by MKD 8,699.0 million or 11.7% in comparison to the previous year as a result of an increase of credit risk weighted assets by MKD 9,211.2 million, increase of operating risk weighted assets by MKD 217.5 million and increase of other risks weighted assets by MKD 1.2 million, while currency risk weighted assets decreased by MKD 730.9 million.

During 2021, in accordance with the NLB Group's requirements, the Bank amended its Capital Management and Capital Adequacy Policy, defining the minimum and target levels of capital and dividend policy.

## Determination of internal capital ICAAP

According to the NLB Banka AD Skopje's Risk profile determination methodology, in 2021 analysis of the Bank's risk profile was conducted. Based on macroeconomic expectations, developments in the banking sector, Risk Management Strategy, conducted risk identification according to volume, volatility and historical data in relation to losses, key risk indicators, set limits, performed stress tests and professional opinion of the members of the so-called Expert Group in the Bank, credit risk (including concentration risk, industry risk and foreign currency lending risk), currency risk, market risk arising from investments in equity securities, "credit spread" risk, interest rate risk and operating risk have a material significance on the Bank's risk profile.

According to the Methodology for determination of internal capital of NLB Banka AD Skopje, in the first quarter of 2021, a calculation of the capital required to cover the risks identified as materially significant for 2021 was made. According to the calculation in the economic approach, the total capital requirement for risk coverage amounts to MKD 7,953 million. The internal capital adequacy indicator as of 31.12.2021 is 167% and is 51 p.p. above the internal level.



## X. Human Resources Management

NLB Banka in 2021 continued to apply modern practices in human resource management and to strive for continuous development of human potential, as one of the key segments in operations. At the same time, having in mind the situation created by the global health crisis, special attention and care, as in the previous year, was devoted in the field of providing a high level of protection for employees from the covid-19 virus, following all government recommendations, providing conditions for emergency work, continuous education to comply with measures to prevent the spread of the virus, as well as raising awareness of healthy habits and care for physical and mental health.

Despite the difficult working conditions, the Human Resources Management Center continued its efforts to provide an exceptional working environment for employees, filled with challenges and numerous opportunities for growth, through the smooth running of all processes.

**The Talent Management Strategy and Successors Development** which includes lists of talents, potential successors and key employees, was defined and implemented as planned. Additionally, the strategy defined development programs in order to build a more structured approach in monitoring these employees and their professional development. The new programs are scheduled to start in 2022. In 2021, the focus was on previously identified talents, with 15% of them being promoted to managerial or highly specialized jobs.

During the year, activities were conducted to **develop leadership skills** through the assessment of management / leadership skills using "Leadership by Impact" and "Management by Impact", tools based on the method of assessment "360 degrees". Leadership skills research was also conducted as a basis for detecting development needs for division managers and their assistants. A structured program for the development of these employees is defined in order to enhance their modern leadership skills as people-oriented managers. The program is scheduled to start in 2022.

In 2021, a **measurement of the organizational culture** of the Bank was conducted. After the obtained results from the conducted measurement and their analysis, a project was launched to define a plan for the promotion of constructive communication styles within the culture. Thereby, the first phase of the project was completed before the dynamics at the level of the Group, with realized workshops with part of the employees at all levels, from all organizational units and initial action plans were developed. In addition, the role of project sponsors, in order to motivate and encourage, was assigned to the members of the Board, and the role of facilitators who would facilitate the process - to the managers at B-1 level. The second phase of the project is planned in early 2022 according to the dynamics of the Group.

Additionally, continued active support of the already started practices for improving the vertical and horizontal communication, setting common cross-sectoral as well as team goals within the organizational units, giving challenging tasks to the employees, providing space for open communication of ideas, encouraging employees to provide support and resolve conflicts constructively. Investments in professional and personal growth of employees continued, with 157 trainings conducted, i.e., a total of 21,435 hours, which is an average of 23.6 hours of training per employee of the Bank.

At the end of the year, in accordance with the previous practice, a **measurement of the employees' engagement** was conducted through the "Engagement Assessment Survey". For the purpose of better analysis, this time a more detailed structural division (by organizational units) was applied, where the methodology allows. Responsiveness was particularly high with the participation of 84% of employees. The results and expectations were also included in the Key Performance Indicators (KPI) of B-1 level managers, with the intention of giving more focus to improving engagement.

Some of the activities implemented by the Human Resources Management Center in this segment in 2021 include:

- "NLB Café" (3 events: Together on the mountain; How to maintain our mental health at work ?; Mental health care in conditions of Covid-19),
- "HR Advisor Interviews" (> 60 interviews in selected organizational units),
- Conducted "Survey Questionnaire - Remote work vs. work from the Bank's premises" (86% responsiveness),

- "NLB summer experience - we work with Nela for the children of employees" with the participation of 35 children who were enabled to get acquainted with the banking profession and banking processes and
- private health insurance for all employees.

All activities in this domain resulted in an increase in the number of engaged employees by 8 percentage points (40%), with a decrease in the number of actively unemployed (15% according to the last measurement).

During the year, the activities in the field of **employee performance management** were intensified, with an emphasis on communication in relation to the system of management by objectives (with a focus on managers) in order to improve its implementation and accelerate the evaluation and rewarding of performance after the end of the respective periods. Additional education was conducted for the managers about the system and the process of giving feedback.

The first phase of the project has started, which refers to the Bank's brand as an employer - **Employer Branding**, in accordance with the guidelines and dynamics at the level of the NLB Group. The activities that were realized during 2021 include: project planning, interviews with the Management Board and the Human Resources Management Center, preparation of internal and external surveys, as well as preparation for realization of focus groups. In addition, in order to promote this aspect of the work, the external job advertisements (more advertisements, improved visual access), participation in a regional virtual employment fair and participation in a career fair organized by the local universities were strengthened.

In 2021, 60 new employments and 58 departures of employees from the Bank were realized, so the fluctuation rate of the total engaged employees decreased from 6.88% in 2020 to 6.14% in 2021, while the number of employees stayed on the same level.

The Bank as a company that continuously demonstrates an active awareness of the importance of human capital, respects the standards in human management and will continue to encourage employees to reach and apply their potential and to jointly build a vision for long-term well-being.



**Table 12.** Employees' structure

	31.12.2020		31.12.2021		Change Y-o-Y	
	Number	Structure	Number	Structure		
Structure of employees						
by education degree	877	100,0%	877	100,0%	0	0,0%
PhDs	2	0,2%	1	0,1%	-1	-50,0%
Specialists and Masters	148	16,9%	158	18,0%	13	21,7%
Bachelors	638	72,7%	631	71,9%	-6	-0,9%
Undergraduates	11	1,3%	9	1,0%	-2	-18,2%
Highschool	78	8,9%	78	8,9%	0	0,0%
Primary	0	0,0%	0	0,0%	0	/
by age	877	100,0%	877	100,0%	0	0,0%
up to 25 years	11	1,3%	4	0,5%	-7	-63,6%
25 to 35	290	33,1%	278	31,7%	-12	-4,1%
35 to 45	426	48,6%	419	47,8%	-7	-1,6%
above 45	150	17,1%	176	20,1%	26	17,3%
by years of work within the Bank	877	100,0%	877	100,0%	0	0,0%
up to 1 year	33	3,8%	43	4,9%	10	30,3%
1 to 2	59	6,7%	30	3,4%	-29	-49,2%
2 to 5	147	16,8%	156	17,8%	9	6,1%
more than 5	638	72,7%	648	73,9%	10	1,6%
by gender	877	100,0%	877	100,0%	0	0,0%
male	305	34,8%	309	35,2%	4	1,3%
female	572	65,2%	568	64,8%	-4	-0,7%

## **XI. Internal Audit**

During 2021, the Bank's audit activities were focused on achieving the key objectives: carrying out audits with a focus on the Strategy, business objectives and key risks to the Bank's operations, providing SMART audit recommendations, effective conduct of audit reviews and expert and professional development of internal auditors.

Within the audit reviews performed during 2021, a total of 121 recommendations were issued out of which: 12 of A priority, 52 of B priority and 57 of C priority.

Following separate processes, the recommendations mainly relate to the promotion of risk management and internal controls in the following areas:

- IT operational management;
- Compliance with regulations;
- Procurement;
- Market risk management;
- Consumer loans;
- Operational risk management;
- Data management – follow up audit;
- ATMs;
- Credit cards – individuals;
- Cyber security and IT security management;
- Human resources management;
- Credit rating;
- ILAAP and liquidity risk management;
- Treasury operations;
- Customer data management;
- Credit intermediaries;
- Audit in the Bank's branches;
- Audits conducted on the recommendation of the Governor of the NBRNM;
- Work with civil safes in GTC branch office.

For the open recommendations as of 31.12.2021, appropriate activities are undertaken for their implementation within the set deadlines.

## **XII. Marketing activities**

### **Promotional campaigns for the Bank's product portfolio**

During 2021, the marketing activities, except on the social networks, were implemented through all regular communication channels of the Bank, with special emphasis on the social responsibility of the Bank, the numerous activities for environmental protection, but also the support of numerous activities and events in the field of culture and sports. In 2021, the first fully digitalized branch office was opened in the newly opened East Gate Mall in Skopje.

In order to support the sale of loan products, loan campaigns were implemented with a series of promotional benefits, a prize game with Mastercard cards was organized, a promotional campaign for the Visa Olympic Games, etc.

In accordance with the marketing plan, following the needs and preferences of the clients, numerous promotional campaigns were realized:

#### For legal entities

- Group's level campaign to support small businesses – NLB Help Frame project;
- Promotional campaign for MasterCard Business cards for legal entities;
- Promotional campaign for NLB Proklik e-banking and for NLB mProklik mobile banking for legal entities;
- Promotional campaign for Visa Business cards for legal entities.

#### For individuals

- NLB Consumer and Housing Loans;
- NLB Loans (Consumer, Housing and Mortgage);
- NLB Consumer Loans;
- NLB Pay mobile wallet;
- NLB mKlik loan;
- NLB MasterCard credit cards for individuals with a prize game with 126 daily prizes – Private health insurance;
- Visa credit cards for individuals with numerous promotional activities during the Tokyo Olympics, activities on social networks, caravans in branches, awarded backpacks, mascots and TV devices to clients;
- NLB Savings Month;
- NLB Insurance Month;
- Christmas (X-mass) group-level campaign;
- Promotional campaign for collecting marketing consents (according to GDPR).

The bank successfully conducted an eco-action within the NLB Savings Month, through the primary schools in the country for plastic waste collection, where ten tons of plastic were collected and handed over for recycling. An internal paper recycling campaign was also conducted at the Bank's Headquarters, during which employees collected 650 kg of paper.

In 2021, the Bank opened the first fully digitalized branch within the newly opened East Gate Mall in Skopje. The branch office has 3 ATMs, 2 digital kiosks, daily night vault and video wall. At the branch, the clients can perform the transactions independently, the legal entities can deposit the daily market independently through the day and night vault, and the employees are available for all financial advice, as well as for quick and simple application for one of the loans from the Bank's portfolio.

### XIII. Corporate Social Responsibility

Taking care of the common good is one of the highest priorities in the Bank's value system and is an integral part of the strategy, where to the Bank paying particular attention to social responsibility and protection of the interests of all stakeholders. By supporting projects in the fields of culture, sport, science, education and protection of the environment, children and youth, the Bank seeks to contribute to the promotion and improvement of the overall quality of life of individuals, families, institutions and organizations in the wider environment in which operates.

In 2021 the Bank's Corporate Social Responsibility, in accordance with the NLB Group's Corporate Social Responsibility Strategy, was implemented through numerous activities for the society and environment, clients and employees:

- At the initiative of the Slovenian Embassy in Skopje, an exhibition of self-sustaining contemporary Slovenian design entitled "The Future of Living" was opened at the NLB Gallery;
- Sponsorship for the First Skopje Scout Detachment (PSIO) for the construction of a summer classroom within their mountain lodge on Kitka;
- Sponsorship support for the Ecological Society Outdoor Manifesto - Krushevo for the two "outdoor" festivals "When in Krushevo" - winter and summer edition;
- Sponsorship for Start-up Macedonia;
- Support to the largest regional conference on trade in fast moving consumer goods FMCG (Fast moving consumer goods) summit 2021;
- Sponsorship for the men's handball club Vardar, winner of the "EHF" Champions League 2016/2017 and 2018/2019;
- Sponsorship for the Basketball Club Gostivar;
- Sponsorship of the Summit 2025 organized by Macedonia 2025;
- Sponsorship for Mandra for the project by which sound system at Toshe Proeski Street in the municipality of Aerodrom was set up;
- Sponsorship for the Golden Art KL7 Handball Club;
- Sponsorship for the Volleyball Federation;
- Sponsorship together with Visa for the latest feature film by Milcho Manchevski "Kajmak"
- Sponsorship for the Ministry of Culture;
- Sponsorship for the Association for e-commerce of Macedonia;
- Sponsorship of music concerts organized by Avalon;
- Sponsorship of the New Year online concert of the cult rock band Last Expedition;
- Sponsorship for the Skopje Jazz Festival;
- Sponsorship for PE Komunalna Krushevo for construction of pedestrian paths;
- Sponsorship for the realization of the Marathon on the occasion of the independence of Krushevo;
- Sponsorship for the Judicial Commission of the Basketball Federation;
- Sponsorship for the Economic Chamber of RSM;
- Sponsorship for the Ohrid Summer;
- Sponsorship together for MasterCard for the new Philharmonic concert season.

During the year, donations were paid to the following sports clubs and individuals: Athletic Federation, Volleyball Federation, Federation of School Sports, Chess Federation, Wrestling Federation, Karate sports Federation, Handball Club Prolet 1962, Basketball Club Gostivar, Dance Sports Club Branimir & Brankica, club Olympic, Women's volleyball club Rabotnichki Skopje, Swimming Club Neptun Skopje, Ping pong Federation, Kayaking Federation, Bodybuilding Federation, Fencing Club Pobednik Skopje, Taekwondo Club Butel, Football Club GFK Tikvesh, National Sports Federation of the Blind people.

In addition to sports donations, the Bank also donated funds to:

- The Mountaineering Association of North Macedonia at the initiative of the Slovenian Embassy for marking a mountaineering trail;
- „Project" Be IN, be INclusive, be INCLUDED "for making a stimulation room within a primary school in Bitola for children with atypical development;

- Young promising sports talents for participation in international tournaments: Katja Ivanovska, tennis player and Petar Bogatinovski, karting driver
- Traditionally donated New Year packages to the following non-governmental organizations that care for children with atypical development: NGO Prkos, Mobility Skopje, Sozvezdie, Coalition We change;
- Donation of the association SANO for making wigs for children from the hemato-oncology department at the Children's Clinic in Skopje;
- Donation for the municipality of Berovo, fire brigade Berovo;
- Donation for procurement of ECG device for the Cardiology Clinic.

## XIV. Information Technology and Project Management

### Information technology

The Information Technology Division in 2021, in addition to the activities and projects for providing working conditions in a pandemic conditioned by Covid-19, fulfilled other strategic goals aimed at developing and upgrading information systems in order to support banking operations, digitalization of banking services, automation and optimization of banking processes and harmonization within the NLB Group. All this was supported by continuous improvement of the IT infrastructure (network, system and server) and ensuring the security and safety of the systems.

The most key areas of work in 2021 were:

1. **Digital Bank transformation and integration with the NLB Group's initiatives**
  - Development of systems in order to improve the customers' digital experience and introduction of new digital channels;
  - Active participation in group's initiatives for development of unified loan processes;
2. **Ensuring a high level of IT and Cyber security**
  - Increase system performance and stability by migrating to new versions of operating systems and databases;
  - IT and cyber security risks management by modernizing system security and proactive resource protection;
  - Improving the system for Vulnerability and patch management and
  - Increasing the defence against digital space attacks through the implementation of modern systems for monitoring, authorization, and authentication.
3. **Ensuring IT continuity through a stable Continuous Operation Plan**
  - Increase the performance and capacity of disk systems at the primary and secondary locations and its performance;
  - Modernization of server, virtualization and network infrastructure and
  - Stabilization of the core banking system by introducing solutions for its automation, optimization and online archiving.
4. **Improving the provision of IT services in the field of data management**
  - Engaging outsourcing services for development of new projects for DWH/BI Tools;
  - Optimization of the reporting model through its centralization and
  - Realization of Data Management strategy, through migration of report sets from core banking system to data warehouse (DWH), automation of new DWH report generation solutions, utilization of visual data presentation tools.

### Project Management

During 2021, NLB Banka AD Skopje conducted activities within several projects, on initiatives of NLB d.d. toward realization of the NLB Group's strategy, and as part of certain changes of the Bank's initiative. They were all coordinated and monitored at the NLB Group level and by the Bank's management.

#### ▪ **Project Measuring the Profitability of NLB Banka AD Skopje**

The main objective of the profitability measurement project is to provide transparency of the profit-generating dimensions (client, product, segment, product group, bank), sales channel management, productivity and cost efficiency measurement of the divisions for support of the business departments. During 2021, the set of interfaces at the level of the NLB Group was completed, necessary for obtaining appropriate, easily usable information for quality management decisions. This preceded the use of an appropriate BI tool for creating advanced reports, dynamic graphs, etc. By the end of the year, all project activities were finalized, with the gradual transfer of new activities to a line organization.

#### ▪ **Project Experience (Phase II) - Customer Relationship Management (CRM) Software**

The implementation of the Phase II of the project Experience is an upgrade of the software application for customer relationship management, primarily intended for use by employees who have direct contact with customers, but also others who work to continuously improve the work and the relationship with the existing and potential customers of the Bank. Some of the more significant

enhancements to the application include Customer onboarding, digital channel integration, qualification and integration of transaction operations with the CRM application, BI integration, Customer Analytics upgrade, predictive models, etc. During 2021, considerable progress was made on the planned improvements, and new functionalities were implemented, especially in the part for integration of digital channels. The project activities continue during 2022.

- **Group Project - Local Initiative LOPA (Loan Origination Process Advancing across NLB Group)**

The main objective of the initiative is to establish a unified loan process at the group level. During 2021, the first credit product was implemented through a completely new workflow developed within the initiative, using a new, advanced application. A new, fast consumer loan for individuals has been introduced, which significantly shortens the time of realization of the loan application and the waiting time of the client. The processing of the request, the decision and the payment of funds are completed within the same day the client visits the Bank. NLB Banka AD Skopje is the first of the NLB Group members where this type of product is applied, on the example of which the use should be extended to other members. The project activities for development of other credit products continue during 2022.

- **Local Initiative - Effectiveness leader initiative**

The Effectiveness leader initiative during 2021 expanded and supplemented the scope of work, through the organization of activities in two separate parts:

1. **Process optimization** refers to the improvement and optimization of the existing processes in the Bank. During 2021, significant activities for optimization of the processes were realized, resulting in a number of measures for improvement, realization of savings in the internal resources of the Bank and increase of the productivity.

The optimization of the existing processes takes place in accordance with a previously determined term plan, and such activities will continue to take place in the coming years.

2. **Cost initiative** refers to maintaining a stable level of costs, their control within the planned annual budget, as well as analysis of opportunities for cost optimization.

- **Project for implementation of the Law on Personal Data Protection (GDPR)**

With the entry into force of the Law on Personal Data Protection (in accordance with European regulations - General Data Protection Regulation), there was a need to prepare and adapt procedures for working with clients and processing client data, as well as the technical and human resources of the Bank. The focus of this project was to identify the obligations that the Bank has in the processing of personal data in all business and support processes, defining clear guidelines and responsibilities transferred to the internal acts of the Bank, developing information systems, identifying responsible persons and full compliance of working with legislation. For that purpose, the Bank conducted a complete procurement procedure and procured a new personal data protection management system - DPMS (Data Protection Management System), in the direction of central personal data management, processes related to personal data processing, central records of consents, the legal basis for processing, records of information assets, the impact of risk and the exercise of the rights of entities. The project activities are completed within the stipulated deadline in accordance with the established term plan.

## **xv. NLB Banka AD Skopje Corporate Governance Report**

The Corporate Governance of the Bank, as a set of mutual relationships between the Management Board, the Supervisory Board, other persons with special rights and responsibilities performing the Bank's management function, the Bank's shareholders and other stakeholders in the Bank is based on the principles of responsibility, transparency and control in decision-making and day-to-day operations and reporting on the Bank's situation. The Bank's corporate governance is embodied in the Bank's bodies that play a key role in the efficient operation of the Bank.

During 2021, the Bank was governed by statutory established bodies with rights and obligations set forth in the Banking Law, Company Law and the Bank's Statute.

### **Shareholders assembly**

During 2021, two sessions of the shareholders' assembly were held, of which one regular annual shareholders assembly and one extraordinary assembly.

The following items were adopted at the Annual Shareholders' assembly held on 29.04.2021:

1. Election of the President of the Assembly;
2. Election of a Record keeper and vote counter of the Assembly;
3. Annual report on 2020 NLB Banka AD Skopje' operation with:
  - Supervisory Board' opinion on the Annual report on 2020 NLB Banka AD Skopje' operation;
  - Proposal-decision on adoption of the Annual report on 2020 NLB Banka AD Skopje' operation;
4. Report of the Audit Company Ernst & Young Certified Auditors-DOO Skopje for performed audit of the financial statements of NLB Banka AD Skopje, prepared in accordance with the local regulations and in accordance with the International Financial Reporting Standards for 2019 with:
  - Control Report and Supervisory Board' opinion on Report of the Audit Company Ernst & Young Certified Auditors-DOO Skopje for performed audit of the financial statements of NLB Banka AD Skopje, prepared in accordance with the local regulations and in accordance with the International Financial Reporting Standards for 2019
  - Proposal-decision on adoption of the Report of the Audit Company Ernst & Young Certified Auditors-DOO Skopje for performed audit of the financial statements of NLB Banka AD Skopje, prepared in accordance with the local regulations and in accordance with the International Financial Reporting Standards for 2019;
5. Annual report on the 2020 Supervisory Board' operations with included results from individual and collective Evaluation of the work of the members of the Supervisory Board for 2020;
  - Proposal-decision on adoption of the Report on 2020 Supervisory Board' operations of NLB Banka AD Skopje;
6. Proposal-decision for approval of the work of the members of the Supervisory Board;
7. Annual report on the 2020 Management Board' operation with:
  - Proposal-decision on adoption of the Report on the 2020 Management Board' operation of NLB Banka AD Skopje;
8. Proposal-decision for approval of the work of the members of the Management Board;
9. Proposal-decision on adoption of 2020 Annual account of NLB Banka AD Skopje;
10. Proposal-decision for use and distribution of the profit on 2020 Annual account of NLB Banka AD Skopje;
11. Proposal-decision on appointing an Audit Company for performing 2021 Audit of the financial statements of NLB Banka AD Skopje;
12. Proposal-decision on reappointing members of the Supervisory Board of NLB Banka AD Skopje;
13. Proposal-decision on appointing a member of the Supervisory Board of NLB Banka AD Skopje;
14. Information on the results of the performed assessment of the suitability of Borut Vujčič for a member of the Supervisory Board of NLB Banka AD Skopje.
15. Proposal-decision on determining compensation for members of the supervisory authorities of NLB Banka AD Skopje.



The second Shareholders Assembly was held on 19.11.2021 when the following items were proposed for adoption:

1. Election of the Chairman of the Assembly;
2. Election of a Record keeper and vote counter of the Assembly;
3. Proposal - decision for use of the accumulated profit of NLB Banka AD Skopje for 2019 and 2020;
4. Proposal - decision on dividend payout and determination of Dividend calendar of NLB Banka AD Skopje;

## Supervisory and audit bodies and auxiliary bodies

### Supervisory Board

The Bank's Supervisory Board supervises the operations of the Management Board, approves policies for performing financial activities and supervises their implementation. The Supervisory Board is responsible for ensuring the good operation, management, and stability of the Bank, as well as timely and accurate financial reporting to the National Bank of the Republic of North Macedonia.

In 2021, the Supervisory Board held 13 sessions, five of which were videoconferences, and eight were held in correspondence manner. The Supervisory Board was making decisions at all its sessions in accordance with the Statute and Rules of Procedure by a majority of votes. The work of the Supervisory Board was continuously attended by all members, and they contributed to the successful completion of the work of the Supervisory Board, except for the members who were justifiably absent at some sessions.

The Supervisory Board of the Bank performs the following activities:

- Adopts the Bank's Business Policy and the Bank's Development Plan;
- Appoints and dismisses members of the Management Board of the Bank;
- Appoints and dismisses members of the Risk Management Committee;
- Appoints and dismisses members of the Audit Committee;
- Appoints and dismisses members of the Information System Steering Committee;
- Appoints and dismisses members of the Credit Committee;
- Adopts the Bank's financial plan;
- Organizes the Internal Audit Division;
- Approves the annual plan of the Internal Audit Division;
- Adopts information system security policy;
- Adopts the Bank's risk management policies;
- Adopts a policy of conflict of interest identifying possible conflicts of interest and measures and activities to prevent them;
- Adopts a remuneration policy in accordance with the business policy, development plan, financial plan, and policy for avoiding conflict of interest with the Bank;
- Adopts and implements the policy on the manner of selection, monitoring of the work and dismissal of the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Management Board;
- Reviews the reports on the operation of the Management Board of the Bank;
- Reviews the reports of the Risk Management Committee;
- Reviews the reports of the Audit Committee;
- Reviews the reports of the Internal Audit Division;
- Reviews the reports of the Compliance and Information Security Department;
- Approves the Bank's annual account and financial statements;
- Approves exposure to an individual of over 20% of the Bank's own funds, except for exposure based on the purchase of securities issued by the National Bank and the Republic of North Macedonia;
- Approves transactions of related parties with the Bank in the amount of over 6 million MKD;
- Approves the acquisition of equity holdings and purchase of securities greater than 5% of the Bank's own funds, except for the purchase of securities issued by the National Bank and the Republic of North Macedonia;

- Approves the Audit Committee's proposal for appointment of an audit company, or the proposal for terminating the contract with the audit company, and is responsible for providing appropriate audit;
- Adopts an internal audit policy;
- Reviews the supervision reports, as well as other reports submitted by the National Bank, the Public Revenue Office and other competent institutions and proposes or takes measures and activities for overcoming the identified non compliances and weaknesses in the Bank's operations;
- Approves the annual report on the Bank's operations and submits a written opinion thereon to the Bank's Assembly;
- Reviews the report of the audit company and submits a written opinion thereon to the Shareholders Assembly;
- Adopts the Corporate Governance Code which regulates the Bank's management and supervision rules;
- Adopts the Bank's Code of Ethics;
- Adopts an act for organization and systematization of the Bank's job positions;
- Decides on the establishment of organizational units, upon the proposal of the Management Board;
- Concludes management agreements with the Management Board of the Bank;
- Decides on definitive write-off of claims, based on the reports prepared by the Bank's expert divisions;
- Decides on the establishment and abolition of business-organizational units of the Bank abroad;
- Adopts Rules of Procedure for its work;
- Forms boards, working and advisory bodies and committees to perform tasks within its scope and determines their competence;
- Decides on the Bank's participation in the formation of the Banking Consortium;
- Decides in the second instance on complaints and requests for protection of workers' rights;
- Approves loans and other forms of exposure of the Bank towards a subsidiary of the Bank, towards a shareholder with qualified holding in the Bank and related persons and to a person with special rights and responsibilities and persons related to him in the amount of over 6 million MKD;
- Performs other duties which are not within the competence of the Assembly.

For most of 2021, the Bank's Supervisory Board was composed of six members.

The member of the Supervisory Board Hedvika Usenik submitted a resignation on 23.10.2020 to the Shareholders Assembly of NLB Banka AD Skopje as a member of the Supervisory Board and a member of the Audit Committee of the Bank. The submitted resignation states that Hedvika Usenik will continue to perform the function of a member of the Supervisory Board until obtaining the consent of the Governor of the NBRNM, for the member of the Supervisory Board who will be appointed as her replacement at the Shareholders Assembly.

The statutory minimum of members of the Supervisory Board under the Banking Law is five members.

To supplement the composition of members of the NLB Banka AD Skopje Supervisory Board, following the resignation of Supervisory Board member Hedvika Usenik on 23.10.2020, NLB d.d. Ljubljana submitted a proposal for the appointment of Borut Vujčič as a new member of the Supervisory Board and the Audit Committee of NLB Banka AD Skopje for the remainder of Hedvika Usenik's term of office until 11.09.2021.

On 05.01.2021 a request for appointment of Borut Vujčič as a member of the Supervisory Board of NLB Banka AD Skopje was submitted to the NBRNM.

On 11.03.2021, a decision was reached by the NBRNM for the issuance of a prior consent for the appointment of Borut Vujčič as a member of the Supervisory Board, in the place of Hedvika Usenik for the remainder of her term of office concluded on 11.09.2021.

Due to the expiration of the mandate of four members of the Supervisory Board, NLB d.d. Ljubljana proposed the appointment of three members: Blaž Brodnjak, Borut Vujčič and Kristina Kovačič Bjelajac. At the same time, a proposal was given for a new appointment of a member of the Supervisory Board for Andreja Stražišar. On 07.05.2021, the requests were submitted to the NBRNM for reappointment and appointment of the members of the Supervisory Board.

On 06.07.2021, decisions were reached by the NBRSM for the issuance of a prior consent for reappointment of Borut Vujčič and Kristina Kovačič Bjelajac as members of the Supervisory Board. On 21.07.2021, decisions were received from the NBRSM for the reappointment of Blaž Brodnjak as President of the Supervisory Board and for the appointment of Andreja Stražišar as a member of the Supervisory Board.

Due to the expiration of the mandate of Marjeta Zver Cankar on 29.07.2021, the Supervisory Board decided to terminate the mandate as of August 29.08.2021, which terminated the function of Marjeta Zver Cankar as Deputy – President of the Supervisory Board and member of Audit Committee.

On 7.12.2021, Borut Vujčič resigned from the Assembly of Shareholders of NLB Banka AD Skopje from all positions in the Bank's Committees. Following his resignation, the Bank's Supervisory Board continued to operate with five members. On 07.12.2021, a proposal was given by NLB d.d. Ljubljana for the appointment of Bostjan Kovac as a member of the Supervisory Board, and the procedure for his appointment is ongoing.

- Term of office

The Assembly elects the members of the Bank's Supervisory Board, with a majority vote of the voting shares of the quorum determined for the work of the Assembly.

The term of office of the members of the Supervisory Board is four years, whereas each year the Annual Assembly decides on the approval of the work of each member separately, after which new members are elected in place of those whose work is not approved.

- Independence

At least one quarter of the Supervisory Board members must be independent members. In this regard, two of the members of the Supervisory Board of NLB Banka are independent members. The independence of the two members of the Supervisory Board of the Bank is determined in accordance with the independence criteria set forth in the Banking Law. The Bank continuously observes the fulfilment of these criteria throughout the year.

The data on the members, the memberships in the Bank's bodies as well as their memberships in other management or supervision bodies are presented in Table 13.

- Compensation and remuneration

According to the NLB Group Management and Supervision Policy, the members of the Supervisory Board employed by NLB Group are not entitled to any remuneration for participating in the work of the Supervisory Board, nor to participating in the remuneration from the Bank's profit. According to the Decision on determining the remuneration of the members of the Bank's bodies, adopted by the Bank's Shareholders Assembly on 23.07.2013, the members of the Supervisory Board who are not employees of NLB Group are entitled to a compensation for attending a session of EUR 500 in Denar counter value for President of the Supervisory Board and 400 EUR in Denar counter value for a member of the Supervisory Board. The compensation for attending a correspondent session is 50% of the compensation for attending each regular session.

From 01.05.2021, in accordance with the Decision for determining the remuneration of the members of the supervisory bodies of the Bank, adopted at the Annual Shareholders' Assembly on 29.04.2021, the members of the Supervisory Board who are not employed in the NLB Group are paid a monthly compensation in net-amount of EUR 500 in denar counter value.

According to the stated decisions that were valid during the year, independent members of the Supervisory Board based on monthly compensation and session attendance in 2021 were paid a gross amount of MKD 451,966 to Zoran Jovanovski and a gross amount of MKD 397,189 to Mateja Treven.

Pursuant to the Company Law, the Bank is obliged to publish in the annual report also the remuneration that members of the supervisory and management bodies achieve from membership in management bodies in other companies, or if they have established employment relations with other employers.

Due to the confidentiality of the data of six members - non-residents of the Supervisory Board (Blaž Brodnjak – President, Marjeta Zver Cankar, Hedvika Usenik, Kristina Kovačič Bjelajac, Borut Vujčič and Andreja Stražišar) all of them employees at the employer NLB d.d. Ljubljana, earnings for 2021

are expressed in aggregate gross amount as follows: gross salary of EUR 987,003 and variable part of salary in gross amount of EUR 5,074. The other two members are independent members, who during 2021 earned the following income:

1. Zoran Jovanovski – resident, gross salary in the amount of MKD 1.5 million and a variable part of salary of MKD 13,333;
2. Mateja Treven – non-resident, gross salary in the amount of EUR 20,033 and variable part of salary in gross amount of EUR 1,614.

**Table 13.** Members of the Supervisory Board and their membership in other committees

Membership of the Bank's bodies							Membership in other supervisory or management bodies		
Name	Professional engagement	Education	Supervisory Board	Audit Committee	Remuneration Committee	Nomination Committee	Supervisory or management authority	Name and address of the legal entity	Period
Blaž Brodnjak	President of the Management of NLB d.d.	MBA	President, 28.07.2016 - current	-	President	Member	President of the Supervisory Board President of the Board of Directors	Nova Ljubljanska Banka d.d. NLB AD Prishtina	current 30.08.2021 - current
							President of the Supervisory Board President of the Supervisory Board President of the Board of Governors President of the Supervisory Board Member of the Board of Directors	NLB Banka Sarajevo d.d. Federacija Bosna i Hercegovina NLB Banka Banja Luka a.d. Republika Srpska American Chamber of Commerce in Slovenia Bank Association of Slovenia Komerčajna banka a.d. Beograd	until 29.05.2021 until 20.06.2021 15.09.2020 - current 01.11.2019 - current 30.12.2020 - current
Marjeta Zver Cankar	Deputy General Manager of the Corporate Governance Department in NLB d.d.	Master of Science in World Economy	Member, 31.03.2011 - 29.08.2021	Member until 29.08.2021	Member until 29.08.2021	President until 29.08.2021	-	-	-
Mateja Treven	Founder-CEO of Blockhup DOO Ljubljana	Master of Science in Investment Management	Member, 20.10.2020 - current	Member (temporary) since 23.12.2021 until appointment of new SB member	-	-	External member of the Audit Committee Member of the Board of Directors	Port of Luka Koper d.d. Koper, Slovenia NLB AD Prishtina	until 12.07.2021 26.05.2021 - current
Hedvika Usenik	Country Manager for Macedonia and Kosovo, NLB Group Steering - NLB d.d.	Master of Science, Degree in Business Administration, Major in Finance	Member, 01.04.2019 - 11.03.2021	President, 31.07.2019 - 11.03.2021	-	-	Vice Chairman of the Board of directors Member of the Supervisory Board	NLB AD Prishtina NLB Banka Banja Luka a.d. Republika Srpska	until July 2021 21.06.2021 - current
Kristina Kovačič Bjelajac	Deputy General Manager of Global Risk Division in NLB d.d.	Master of Science in Business Administration (MScBA), Banking and Finance	Member, 30.07.2019 - current	Member*, 30.07.2019 - current	Member, President (temporary) since 21.12.2021-until appointment of new SB member	Member	-	-	-
Andreja Stražičar	Head of Controlling- NLB d.d.	BSc of Economics	Member, 30.08.2021 - current	Member, 30.08.2021 - current	Member (temporary), 21.12.2021 - current	Member (temporary), 21.12.2021 - until appointment of new SB member	-	-	-
Borut Vujčič	Regional manager for Macedonia and Kosovo, NLB Group Steering - NLB d.d.	BSc of Economics	Member, 11.03.2021 - 07.12.2021	President, 11.03.2021 - 07.12.2021	Member, 11.03.2021 - 07.12.2021	Member, 11.03.2021 - President, 29.07.2021 - 07.12.2021	Member of the Supervisory Board	NLB Lease & go Ljubljana	
Zoran Jovanovski	Cheif Advisor to the Management Board of the Economic Chamber of Macedonia for Economic Affairs	Master of Arts, Business Economics	Member, 30.03.2020 - current	Member, 30.03.2020 - current	Member, 30.03.2020 - current	Member, 30.03.2020 - current	-	-	-
Stojan Jordanov	Manager of the Audit company RSM Macedonia	BSc of Economics and Certified Auditor	-	Member, current	-	-	-	-	-

\* Kristina Kovačič Bjelajac was appointed President of the Audit Committee on 29.01.2022

### Remuneration Committee

The committee was established based on the NBRNM Decision on Good Corporate Governance rules for banks and functions as an advisory body to the Supervisory Board. During 2021, it operated with four members.

On 11.03.2021, by decision of the Supervisory Board, Borut Vujčič was appointed a member of the Remuneration Committee.

Due to the expiration of the mandate of Marjeta Zver Cankar, who was also a member of the Remuneration Committee, by a decision of the Supervisory Board made on 29.07.2021, Kristina Kovačič Bjelajac was appointed a member of the Remuneration Committee.

Following the resignation of Borut Vujčič, by a decision of the Supervisory Board made on 21.12.2021, Andreja Stražišar was appointed as a temporary member of the Remuneration Committee, until an appointment of a new member of the Supervisory Board.

Committee members meet at sessions whenever there is a need for a Remuneration Committee. During 2021, three videoconference sessions of the Remuneration Committee were held.

- Term of office

The term of office of the members of the Remuneration Committee shall run from the time of their appointment to the moment of their removal by appropriate decision or their resignation.

- Compensation and remuneration

Pursuant to the Decision on determining the remuneration of the members of the Bank's bodies, adopted by the Bank's Shareholders' Assembly on 23.07.2013, the members of the Remuneration Committee were not entitled to remuneration for participation in the session.

From 01.05.2021, in accordance with the Decision for determining the remuneration of the members of the supervisory bodies of the Bank, adopted at the Annual Shareholders' Assembly on 29.04.2021, the members of the Remuneration Committee are paid a compensation of 100 EUR in denar counter value.

The composition of the committee is shown in Table 13.

### Nomination Committee

The committee was established based on the NBRNM Decision on Good Corporate Governance rules for banks and functions as an advisory body to the Supervisory Board. During 2021 it operated with four members.

Due to the expiration of the mandate of Marjeta Zver Cankar, by a decision of the Supervisory Board made on 29.07.2021, Kristina Kovačič Bjelajac was appointed a member of the Nomination Committee.

Following the resignation of Borut Vujčič, by a decision of the Supervisory Board made on 21.12.2021, Andreja Stražišar was appointed as a temporary member of the Nomination Committee, until an appointment of a new member of the Supervisory Board. Kristina Kovačič Bjelajac was appointed President of the Nomination Committee.

Committee members meet at sessions whenever there is a need to hold a Nomination Committee. During the reporting period, five sessions of the Nomination Committee were held, four of which were videoconferences, and one was held in correspondence manner.

During 2021 the following proposals were submitted to the Nomination Committee:

- Approval of a positive annual assessment of the suitability of the members of the Supervisory Board of NLB Banka AD Skopje for 2020,
- Reappointment of Blaž Brodnjak as a member of the Supervisory Board of NLB Banka AD Skopje;
- Reappointment of Borut Vujčič as a member of the Supervisory Board of NLB Banka AD Skopje;
- Reappointment of Kristina Kovačič Bjelajac as a member of the Supervisory Board of NLB Banka AD Skopje;
- Appointment of Andreja Stražišar as a member of the Supervisory Board of NLB Banka AD Skopje;
- Appointment of members of the Audit Committee;

- Appointment of new members and determination of a new composition of members of the Risk Management Committee;
  - Reappointment (re-election) of Peter Zelen as a member of the Management Board of NLB Banka AD Skopje;
  - Reappointment (re-election) of Igor Davchevski as a member of the Management Board of NLB Banka AD Skopje;
  - Reappointment (re-election) of Anita Boshkova as a Manager of the Internal Audit Division,
  - Appointment of Branko Greganović as a President of the Management Board of NLB Banka AD Skopje;
  - Appointment of Mateja Treven as a member of the Audit Committee of NLB Banka AD Skopje.
- For the above-mentioned appointments, positive (individual and collective) assessments of suitability for the members of the Bank's management and supervisory bodies were carried out, and prior consents for their appointment were issued by NBRNM decisions.

The composition of the Committee is shown in Table 13.

- **Term of office**

The term of office of the members of the Nomination Committee shall run from the time of their appointment to the moment of their removal by appropriate decision or their resignation.

- **Compensation and remuneration**

Pursuant to the Decision on determining the remuneration of the members of the Bank's bodies, adopted by the Bank's Shareholders' Assembly on 23.07.2013, the members of the Nomination Committee were not entitled to remuneration for participation in the session.

From 01.05.2021, in accordance with the Decision for determining the remuneration of the members of the supervisory bodies of the Bank, adopted at the Annual Shareholders' Assembly on 29.04.2021, the members of the Nomination Committee are paid a compensation of 100 EUR in denar counter value.

## Audit Committee

During 2021, the Audit Committee held six sessions. Five were videoconference sessions, and one of the sessions was held in correspondence manner.

The Bank's Audit Committee performs the following works:

- Reviews the financial statements of the Bank and ensures the accuracy and transparency of the disclosed financial information about the Bank's operations in accordance with accounting standards;
- Reviews and evaluates internal control systems;
- Monitors the work and evaluates the effectiveness of the internal audit department;
- Monitors the audit process of the Bank and evaluates the work of the audit company;
- Adopts the Bank's accounting policies;
- Monitors the compliance of the Bank's operations with the regulations regarding accounting standards and financial statements;
- Holds meetings with the Management Board, the Internal Audit Division and the audit company regarding identified noncompliance with the Bank's regulations and weaknesses;
- Reviews the reports of the Risk Management Committee and
- Proposes the appointment of the audit company and termination of the contract concluded with the audit company.

In 2021, the Audit Committee was composed of five members (shown in Table 13).

During 2021, due to the expiration of the mandate of Marjeta Zver Cankar, the Bank started the process of appointing a new independent member of the Supervisory Board, who will also be a member of the Audit Committee.

Namely, on 21.07.2021, a decision was received from the NBRSM with which a prior consent was issued for Andreja Stražišar to be appointed a member of the Supervisory Board, and at the same time the decision adopted by the Supervisory Board on 12.03.2021 came into force for appointing Andreja Stražišar for a member of the Audit Committee of NLB Banka AD Skopje.

At the same time, Borut Vujčič was appointed President of the Audit Committee in place of the current President - Hedvika Usenik.

On 07.12.2021, Borut Vujčič resigned, on the basis of which on 23.12.2021, with a Decision adopted by the Supervisory Board, Mateja Treven was appointed a member of the Audit Committee. The decision adopted by the Supervisory Board will be valid until a decision is made on prior consent for the appointment of a new member of the Supervisory Board.

▪ **Term of office**

The term of office of the members of the Audit Committee shall be four years.

▪ **Independence**

According to the Banking Law, the majority of the members of the Bank's Audit Committee are elected from among the members of the Supervisory Board, and the remaining members are independent members. At least one member of the Audit Committee should be a certified auditor. To that end, four members of the Audit Committee are members of the Supervisory Board, and one member is an authorized auditor (Stojan Jordanov).

▪ **Compensation and remuneration**

According to the NLB Group Management and Supervision Policy, the members of the Audit Committee employed in NLB Group are not entitled to any remuneration for participating in the work of the Audit Committee, nor to participating in the remuneration from the Bank's profit. According to the Decision on determining the remuneration of the members of the bodies of NLB Banka AD Skopje, adopted by the Bank's Shareholders Assembly on 23.07.2013, the members of the Audit Committee who are not employed in NLB Group are entitled to a net compensation of EUR 375 in Denar equivalent to the President of the Audit Committee and 300 EUR in Denar equivalent to a member of the Audit Committee for session attendance. The compensation for attending a correspondent session is 50% of the compensation for attending each regular session.

From 01.05.2021, in accordance with the Decision on determining the remuneration of the members of the supervisory bodies of the Bank, adopted at the Annual General Meeting of Shareholders on 29.04.2021, the members of the Audit Committee are paid compensation of 250 EUR in denar counter value.

The amount paid to the members according to the adopted decision is shown in Table 16.

## Executive and auxiliary bodies

### Management Board of the Bank

**Table 14.** Members of the Management Board and their membership in other committees

Name	Position	Education	Membership of the Bank's bodies						Membership in other supervisory or management bodies		
			Risk Management Committee	Assets and Liabilities Management Committee	Development Committee	IT Steering Committee	Credit Committee	Operational Risk Commission	Supervisory or management authority	Name and address of the legal entity	Period
Antonio Argir*	President of the Management Board (until 31.12.2021)	MBA	President	Member	President	President	Vice-president	Member	Vice president	Economic Chamber of N. Macedonia	2018 – current
Peter Zelen	Member of the Management Board	Bachelor of Economics and Mechanical Engineering	Member	Member	Member	Member	President	President	Member of Board of Directors	NLB Banka AD Prishtina	12.07.2021-current
Günter Friedl	Member of the Management Board	MBA, Master of Advanced Studies in Finance (MAS), Master of Social and Economic Sciences (Mag.)	Member	President	Member	Member	-	Member	-	-	-
Igor Davchevski	Member of the Management Board	MBA	Member	Member	Member	Member	-	Member	-	-	-

\* Mr. Antonio Argir was the President of the Board until 31.12.2021. From 01.01.2022, the President of the Management Board of NLB Banka is Mr. Branko Greganović

The Bank's Management Board represents the Bank and manages its operations in accordance with the Banking Law, the Statute of NLB Banka AD Skopje and the Bank's Corporate Governance Code. The members of the Bank's Management Board are appointed and dismissed by the Bank's Supervisory Board with majority votes, upon prior consent by the Governor of the NBRNM.

In 2021, the Management Board was composed of four members.

On 05.11.2021, NBRNM issued a decision for issuance prior consent for the reappointment of Igor Davchevski as a member of the Management Board of NLB Banka AD Skopje. The consent for the appointment of Igor Davchevski is issued for a period of four years, with effect from 02.01.2022.

On 23.11.2021, the NBRNM issued a decision for issuance prior consent for the reappointment of Peter Zelen as a member of the Management Board of NLB Banka AD Skopje. The consent for the appointment of Peter Zelen is for a period of four years, with effect from 03.01.2022.



On 22.12.2021, the President of the Management Board, Antonio Argir, resigned from his position of President of the Management Board, which he continued to hold until 31.12.2021.

On 30.12.2021, a Decision for prior consent was issued by the NBRSM for the appointment of Branko Greganović as President of the Management Board with effect from 01.01.2022.

The Management Board during the reporting period worked at sessions, which were usually held once a week. In addition to the regular sessions, the Management Board also decided daily, out of the sessions, with the written consent of all members of the Board.

In 2021, the Management Board held approximately 80 regular sessions, some of which were correspondent.

In managing the Bank's operations, the Management Board performs the following tasks:

- Manages the Bank;
- Represents the Bank;
- Organizes the preparation of the drafts of general acts, decisions and other acts for which the Bank Assembly decides;
- Executes the decisions of the Assembly and the Supervisory Board of the Bank, i.e., takes care of their implementation;
- Initiates and makes suggestions for improvement of the Bank's operations;
- Appoints and dismisses the Bank's persons with special rights and responsibilities, in accordance with the Bank's Statute and the provisions of the Banking Law, determines their salary and concludes contracts with them;
- Prepares business policy and development plan of the Bank;
- Prepares financial plan of the Bank;
- Prepares policy for the Bank's information system security;
- Prepares annual report on the Bank's operations and submits it to the Supervisory Board;
- Prepares a Code of Ethics of the Bank;
- Approves exposure to an individual up to 10% of the Bank's own funds;
- Approves transactions with related parties with the Bank in the amount of less than MKD 6.000.000;
- Approves the acquisition of equity holdings and purchase of securities of less than 5% of the Bank's own funds, as well as the purchase of securities issued by the National Bank and the Republic of North Macedonia;
- Decides on employment, on the designating and remuneration of employees in accordance with the legal regulations and general acts of the Bank;
- Decides on granting and taking of loans for liquidity, guarantees, avals and letters of credit within the limits set by law, the Bank's business policy act and the credit policy decision of the Supervisory Board;
- Establishes proposals for decisions and other acts decided upon by the Supervisory Board of the Bank;
- Takes care of informing the Bank's shareholders;
- Directs and organizes the work of the Bank's units, especially in terms of timely and professional performance of the work;
- Adopts the Rules of Procedure of the Management Board and its amendments with the prior approval of the Supervisory Board of the Bank;
- Adopts individual acts of the Bank;
- Establishes a commission for inventory of fixed assets, small inventory, non-current and foreclosed assets, and if necessary, establishes other commissions and working bodies and appoints their members;
- Reviews and adopts the report on annual inventories;
- Performs other activities determined by Law, Statute and other general acts of the Bank.

The Bank's Management Board is responsible for:

- Providing conditions for the Bank's operations in accordance with the regulations;
- Management and monitoring of the risks to which the Bank is exposed;
- Achieving and maintaining an adequate level of own funds;
- Functioning of the system of internal control in all areas of the Bank's operations;
- Continuous operation of the Bank's Internal Audit Division, i.e., ensuring that the Internal Audit Division has access to the documentation and the staff of the Bank for the purpose of smooth performance of its activities;

- Smooth operation of the Compliance and Information Security Department, i.e., ensuring that the Department has access to the documentation and the staff of the Bank for the purpose of smooth implementation of its authorizations;
- Adopting and enforcing the policy on the manner of selection, monitoring of the work, and dismissal of persons with special rights and responsibilities, except for members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Management Board;
- Keeping business and other books and business documentation of the Bank, preparing financial and other reports in accordance with the accounting regulations and the accounting standards;
- Timely and accurate financial reporting;
- Regularity and accuracy of the reports submitted to the National Bank in accordance with the law and the regulations adopted based on a law;
- Implementation of the measures imposed by the Governor towards the Bank and the legality of the Bank's operations.

For regular information on the Bank's operations, an agenda, minutes from the previous session, as well as materials from the Bank's Organizational Units are prepared for each Management Board's session.

In addition to the above, the members of the Management Board of the Bank also attend the sessions of the Supervisory Board and the Audit Committee.

At its regular sessions, within its competences, the Management Board undertakes a number of activities and adopts a number of Rulebooks, Guidelines, Procedures, Plans and Decisions.

Besides that, the Management Board reviews on a monthly basis the reports of the Compliance and Information Security Department, including Segment for Ensuring Operational Legislation, Segment on Money Laundering and Terrorist Financing Prevention, and the Information Security segment.

The Management Board reported at least quarterly to the Supervisory Board on its operations through Information on the Current Activities.

#### ▪ Term of office

The term of office of the members of the Management Board shall be four years, unless the NBRSM decides otherwise with the Decision for issuing a prior consent for appointment of a member of the Management Board.

#### ▪ Compensation and remuneration

Board members are not entitled to a compensation for session attendance.

During 2021, the members of the Management Board earned the following income:

1. Antonio Argir, President of the Management Board, based on gross salary in the amount of MKD 9 million, insurance in the amount of MKD 54,995, variable part of salary in the gross amount of MKD 4.9 million and other rights in the amount of MKD 0.7 million;
2. Peter Zelen, Member of the Management Board, based on gross salary of MKD 8 million, insurance of MKD 54,995, variable part of salary in the gross amount of MKD 1 million and other rights amounting to MKD 3 million;
3. Günter Friedl, Member of the Management Board, based on gross salary in the gross amount of MKD 8 million, variable part of salary in the gross amount of MKD 1.8 million and other rights in the amount of MKD 5 million;
4. Igor Davchevski, Member of the Management Board, based on gross salary in the amount of MKD 7.1 million, insurance in the amount of MKD 54,995, variable part of salary in the gross amount of MKD 3.2 million and other rights in the amount of MKD 0.4 million.

The earnings of the members of the Management Board for 2021 are also shown as a group in Table 16 and Table 16a.

## Risk Management Committee

During 2021, the Risk Management Committee was composed of nine members (Tables 14 and 15). The members of the Risk Management Committee shall be selected from among the persons with special rights and responsibilities employed in the Bank. One of the members of the Bank's Management Board is also a member of the Risk Management Committee. To that end, the President of the Risk Management Committee is the President of the Management Board, Antonio Argir, and the other members of the Management Board are members of the Risk Management Committee. By a decision made by the Supervisory Board on 28.10.2021, Branko Greganović was appointed President of the Risk Management Committee. This decision entered into force after receiving a Decision for prior consent for his appointment, i.e., from 01.01.2022.

During the reporting period, the Risk Management Committee held 52 sessions.

The Risk Management Committee meets regularly, once a week to fulfil the following responsibilities:

- Permanently monitors and evaluates the Bank's risk level and determines the acceptable level of risk exposure in order to minimize the Bank's exposure to risk;
- Establishes risk management policies and monitors their implementation;
- Follows the NBRNM's regulations regarding risk management and the Bank's compliance with these regulations;
- Assesses the Bank's risk management systems;
- Identifies short-term and long-term strategies for managing certain types of risks to which the Bank is exposed;
- Analyses risk exposure reports of the Bank prepared by the Bank's risk assessment divisions and propose strategies, measures and instruments for risk protection;
- Monitors the efficiency of the functioning of the internal control systems of risk management;
- Analyses the effects of risk management on the Bank's performance;
- Analyses the effects of the proposed risk management strategies, as well as the proposed strategies, measures and instruments for risk protection;
- Assesses the compliance of the prices of the products and services offered by the Bank with the level of risk taken, in accordance with the business policy and the development plan of the Bank;
- Reports quarterly to the Supervisory Board on changes in the Bank's risk positions, changes in its risk management strategy, the effects of risk management on the Bank's performance, as well as measures and instruments taken to protect against risks and their effects;
- Approves exposure towards an individual of over 10% to 20% of the Bank's own funds;
- Monitors the information system security policy and identify cases where it is necessary to revise it;
- Assess the established process of information system security management;
- Performs an analysis of the risk assessment report and monitors activities undertaken in relation to information system security management;
- Determines and regularly reviews the defined levels of risk acceptability;
- Mandatory assesses whether the remuneration system considers the Bank's risk profile and its solvency, liquidity and profitability position.

The Risk Management Committee reported at least quarterly to the Supervisory Board and the Audit Committee on changes in the Bank's risk positions, changes in its risk management strategy, the effects of risk management on the Bank's performance, as well as measures and risk protection instruments and their effects.

### ▪ Term of office

The term of office of the Members of the Risk Management Committee shall last from the moment of their appointment until the moment of their removal by appropriate decision or their resignation.

### ▪ Compensation and remuneration

The members of the Risk Management Committee are not entitled to a compensation for session attendance.

## Credit Committee

The Credit Committee consists of seven members and their deputies. The Decision on Appointment of President of the Credit Committee appoints the member of the Management Board responsible for risk monitoring, in his absence as the first Vice-President of the Credit Committee, the President of the Bank's Management Board is appointed, and the second Vice-President is appointed as the Manager of the Risk Management Division. The Credit Committee decides at regular meetings held at least once a week.

During the reporting period, the Credit Committee held a total of 173 sessions (142 regular and 31 correspondent sessions).

The Credit Committee does the following activities:

- Approves credit exposures upon credit claims over limits set forth in the authorizations issued to persons with special rights and responsibilities and other employees of the Bank;
- Decides on buying and selling of securities other than securities issued by NBRNM and government securities, within the limits set by the Bank's acts;
- Decides on borrowing the Bank within the limits set by the Bank's acts;
- Approves credit exposures upon credit claims that are subject to exceptions (interest rates, commissions, collateral, amount and term etc.) outside the criteria set forth in the Bank's internal acts and regulations;
- Approves decisions on the operation of the Nonperforming loans and Intensive Care Division for which the Division has no special powers;
- Decides to place the companies on the WATCH list and on the ICL (Intensive Care List) and on materials related to the clients placed on the ICL list;
- Approves credit exposures upon credit requests of clients (and their fully related entities) on the WATCH list and on the ICL list;
- Approves the possibility of early termination of the deposit, before the expiration of the agreed term with payment of the contractual interest;
- Exceptions of Interest Rate Policy and Bank Tariff;
- Other matters determined by the regulations and internal acts of the Bank.

### ▪ Term of office

The term of office of the members of the Credit Committee and their deputies shall last from the moment of their appointment until the moment of their dismissal by appropriate decision or their cancellation.

### ▪ Compensation and remuneration

The members of the Credit Committee are not entitled to a fee for session attendance.

**Table 15.** Management Team of the Bank and their membership in other bodies

Name	Position	Education	Membership of the Bank's bodies							
			Risk Management Committee	Assets and Liabilities Management Committee	Development Committee	IT Steering Committee	Credit Committee	Operational Risk Commission	Legal Risk Commission	Committee for Identification of Employees Performing Special Work
Biljana Stepanuleska Pochevska	Manager of Corporate Clients Division	MSc in Economy	Member (until 23.04.2021)	Member	-	Member	Member	Member	-	-
Boban Popevski	Manager of Credit Analysis and Administration Division	BSc in Customs and freight forwarding management, International economics	-	-	-	-	Member	Member	-	-
Bogoja Kitanchev*	Counsellor of the Management Board (since 01.03.2021)	MBA	Member (until 23.04.2021)	-	-	Member (until 23.04.2021)	Member (until 12.03.2021)	Deputy-president (until 04.05.2021)	Member (until 21.04.2021)	Member (until 23.03.2021)
Violeta Janeva	Manager of Legal and Secretariat Division	MSc in Finance and Finance Law	Member	-	-	Member	-	Member	President	-
Donka Markovska	Manager of Financial Management Division	MBA	-	Member	Member	Member	-	Member	Member	Member
Zoran Gmcharovski	Manager of Non-performing Loans and Intensive Care Division	BSc of Economics	Member	-	-	Member	Member	Member	-	-
Dejan Madjoski	Manager of Human Resources Management Center (since 01.03.2021)	Master of Human Resources Management	-	-	-	-	-	Member (since 04.05.2021)	-	President (since 01.03.2021)
Igor Mitrovski	Manager of Information Technology Division	BSc of Electrical Engineering	Member (since 23.04.2021)	-	-	Member	-	Member	-	-
Aleksandar Atanasovski	Assistant Manager of Payment System Division	Secondary professional - Electrotechnician	-	-	-	Member	-	Member	-	-
Igor Kacarski	Manager of Bank's Logistics Division	MBA	-	-	-	-	-	Member	-	-
Goran Ilijovski**	Head of Compliance and Information Security Department (since 01.07.2021)	MSc in Economy	-	-	-	Member (since 01.07.2021)	-	Member (since 03.11.2021)	-	-
Irena Kosikj***	Head of department for market and liquidity risks, Risk Management Division in NLB d.d. Ljubljana	BSc of Economics	-	Member (until 05.01.2022)	-	-	-	-	-	-
Matjaž Širca Jezernik	Asset Liability Manager in Financial Market Division in NLB d.d.	MSc in Statistics	-	Member (since 05.01.2022)	-	-	-	-	-	-
Ljupka Jančevska Dimitrovska	Manager of Financial Market and Treasury Division	BSc of Economics	Member	Member	-	Member	-	Member	-	-
Arita Boshkova	Manager of Internal Audit Division	BSc of Economics	-	-	-	-	-	-	-	-
Ljupka Gjorgjievska	Manager of Offer Development and Marketing Division	BSc of Economics	-	Member	-	-	-	Member	-	-
Maja Stavreva Stojanova	Manager of Sales Network Division	BSc of Economics	Member	Member	-	Member	Member	Member	-	-
Marija Zafirovska	Manager of Cash Services and Depot Division	MBA	-	-	-	Member	-	Member	-	-
Sladjana Beleva	Manager of Sales Logistics Division	MSc in Economy	-	-	-	Member	-	Member	-	-
Sanja Churilov	Manager of Risk, Evaluation and Control Division (since 01.03.2021)	BSc of Economics	Member (since 23.04.2021)	-	-	Member (since 23.04.2021)	-	Vice-president (since 04.05.2021)	Member (since 21.04.2021)	Member (since 23.03.2021)
Ana Narashanova	Manager of Credit Risk Division (since 01.03.2021)	BSc of Economics	-	-	-	-	Member (since 12.03.2021)	Member (since 04.05.2021)	-	-

\* until 28.02.2021, Bogoja Kitanchev was Manager of the Risk Management Division

\*\* As of 30.06.2021, the Head of Compliance and Information Security Department was Irena Bachanovikj Karakashev

\*\*\* Irena Kosikj is a Member of the Assets and Liabilities Management Committee until 05.01.2021

## IT Steering Committee

The Committee has been established on the basis of the regulations of the NBRNM, the Basel Principles and the international standards for information system security.

The IT Steering Committee has responsibilities delegated by the Bank's Supervisory Board in the domain of the information system and its reliability. Accounts for its work before the Bank's Supervisory Board and assists in decision-making for approval of IT strategies, policies and expenditures and provides conditions for effective IT planning and monitoring of the IT system capacity and performance, as well as all information security issues.

At least twice a year, it reports to the Bank's Supervisory Board on the status of the Bank's information technology, the open questions and decisions and conclusions.

The IT Steering Committee works and makes valid decisions at sessions convened at least once every 3 months. Sessions are convened as needed in shorter deadlines as well.

The members and the President of the IT Steering Committee are appointed by the Supervisory Board of the Bank (Table 15).

### ■ Term of office

The term of office of the members of the Information System Supervision Board lasts from the moment of their appointment until the moment of their removal by appropriate decision or their resignation.

- Compensation and remuneration

Board members are not entitled to a compensation for session attendance.

## Corporate Governance Code

The Corporate Governance Code of NLB Banka AD Skopje, adopted by the Supervisory Board of NLB Banka AD Skopje sets out in more detail the standards of management of the bodies of NLB Banka AD Skopje. Guided by these standards, the Bank has established a clear organizational structure and a transparent and understandable management system that enhances the level of confidence by both domestic and foreign investors, the employees and the general public.

### Statement for application of the Corporate Governance Code

Pursuant to the Law on Amendments to the Law on Trade Companies, which entered into force on 14.12.2020, Statement on the application of the Code of Corporate Governance signed by the Members of the Bank's Management board is presented in Annex 1 of this Report.

The content of the statement is as follows: *"The Corporate Governance Code of NLB Banka AD Skopje defines in more detail the standards of management and governance of the bodies of NLB Banka AD Skopje and guided by them the Bank establishes a clear organizational structure, transparent and understandable management system that increases the level of trust of both domestic and foreign investors and employees.*

*We declare that NLB Banka AD Skopje applies the Corporate Governance Code of the Bank (No. 0309 - 55/2020) approved by the Supervisory Board of the Bank and it is publicly available on the Bank's website [www.nlb.mk](http://www.nlb.mk).*

*Deviations from the rules of the Corporate Governance Code of NLB Banka AD Skopje do not exist and the rules of the Code are an obligation for all bodies of the Bank, as well as for its employees. We declare that NLB Banka AD Skopje will start applying the best practices and principles prescribed by the new Corporate Governance Code of joint stock companies listed on the Macedonian Stock Exchange, which is effective from October 26, 2021, within the deadline set for its mandatory application."*

The Corporate Governance Code of NLB Banka AD Skopje is publicly available on the Bank's website.

## Significant transaction and transaction with an interested party

During 2021, the Bank realized a deal with an interested party, concluded with the majority shareholder Nova Ljubljanska Banka d.d. Ljubljana. The realized transaction is based on a concluded Agreement for subordinated loan in the amount of EUR 15 million between NLB Banka AD Skopje and Nova Ljubljanska Banka d.d. Ljubljana.

The subordinated loan qualifies as additional Tier II capital for the Bank and contributes to the strengthening of the Bank's equity position.

## Remuneration policy

The Bank has established an efficient system for monitoring and evaluating the performance of the key employees of the Bank (the Management Board and the persons with special rights and responsibilities) defined as persons with a special nature of work, in accordance with the criteria defined in the Policy for remuneration for persons with a special nature of work in the Bank.

The Remuneration policy is intended to direct employees with special nature of work not to take disproportionately big risks, i.e., risks that go beyond the Bank's ability to take risks, considering all risks, including reputational risks and risks arising from wrong or unethical selling of products or other unethical or inappropriate behaviour.

Employees with a special nature of work are entitled to a variable part of the salary based on their assessment regarding the achievement of defined financial and non-financial criteria for success of persons with a special nature of the Bank's work.

The Policy for rewarding the employees with a special nature of the work in NLB Banka AD Skopje defines these criteria in more detail depending on the function and the category of persons with a special nature of the work.

The objectives of each member of the Management Board of the Bank are composed of NLB Group objectives, NLB Banka AD Skopje objectives and the individual objectives and should be financial and non-financial.

The criteria for determination of the performance of other employees with special nature of work in the Bank shall consist of:

- the objectives of NLB Banka AD Skopje which apply to all employees with a special nature of work, but do not apply for the Bank's control and supervisory functions, with the exception of the risk management function (due to the specificity of the credit risk management competence affecting the Bank's financial results);
- the objectives of the organizational unit of employees with a special nature of work arising from the objectives of NLB Banka AD Skopje organizational unit where the employee with a special nature of work takes risks and includes the following areas:
  - organizational unit business objectives, project objectives, and cross functional goals and
  - financial objectives of the organizational unit (if specified).
- individual/personal goals of employees with a specific nature of work (development, project management/other goals) defined by the immediate supervisor for each business year.

With the Policy, as a rule for evaluating the success of control and supervision functions, emphasizes the achievement of the stated objectives of the control and the supervision functions and authorizations, which must be independent from the performance of the supervising organizational unit.

Pursuant to the Decision on Good Corporate Governance Rules for banks, the Bank announces the compensations related to the total remuneration paid during the year by individual groups, separately showing the fixed and variable part of the remuneration paid and the number of persons in the separate group and the structure of the total remuneration according to the amount and the number of persons who have been paid the appropriate amount of the total remuneration (shown in Tables 16 and 16-a).

The calculations include all persons for whom the Bank made a payment during 2021.

The total remuneration is determined according to the following criteria:

- Fixed remunerations include the following payments: gross salaries, compensations and salary supplements, all compulsory living expenses compensations under the Labour Law, the collective agreements and individual agreements between the Bank and the employee, as well as compensations received by the individual whose payment terms and their amount depend on pre-established criteria (compensation for separate life, compensation for working overseas, holiday allowance, jubilee award, severance pay, New Year's compensation, compensation for participation at a session for the members of the Supervisory Board and of the Audit Committee).
- Variable remunerations include all payments that are not considered to be fixed (paid variable part of salary for 2020 and 2019, deferred variable part of salary for 2016 and 2017, insurance of managers, payment to a third voluntary pension fund, payment under a managerial contract and other compensations).

**Table 16.** Remuneration according to the Decision on good corporate governance rules for banks

Structure of persons (groups)	Number of persons who have been paid remuneration during 2021	Structure of remuneration ( in thousand MKD)		
		Fixed part	Variable part	Total remuneration
Supervisory Board	6	933	-	933
Audit Committee	2	314	-	314
Management Board	4	32.833	19.450	52.283
Other persons with special rights and responsibilities	39	84.851	24.114	108.965
Employed persons	879	689.181	74.267	763.449
Other persons, previously employed in the Bank	9	5	12.050	12.054
<b>Total</b>	<b>939</b>	<b>808.117</b>	<b>129.881</b>	<b>937.997</b>

**Table 16-a**

<b>The amount of gross remuneration paid by the Bank during 2021 (per employee, ranging from-to)</b>	<b>Number of persons</b>	<b>Total gross amount (in thousand MKD)</b>
up to 500.000 MKD	103	24.942
from 500.000 to 750.000 MKD	208	140.097
from 750.000 to 1.000.000 MKD	343	296.957
from 1.000.000 to 2.000.000 MKD	239	308.988
above 2.000.000 MKD	41	167.012
<b>Total</b>	<b>934</b>	<b>937.997</b>

## Policy on using outsourcing services

The use of outsourcing services by the Bank is formally regulated under the NLB Banka AD Skopje Policy on using outsourcing services, which describes in detail the procedure and manner of using such services, in accordance with the provisions of EBA Guidelines on outsourcing arrangements and the Decision for risk management by NBRNM.

The Policy strictly regulates the rules regarding the use of outsourcing with:

- The basic principles and guidelines for managing risks arising from the use of outsourcing;
- The manner of conducting the analysis for selecting a potential outsourcing supplier;
- The manner of checking the quality of the services provided by outsourcing persons and the conditions for efficient monitoring of their work;
- The manner of providing continual operation for the services used by outsourcing persons;
- Defining strategic measures in the event of expected or unexpected termination of the contractual relationship with the outsourcing provider.

Within the framework of the Policy, outsourcing services were used in 2021, of which the most important for the overall operation of the Bank are the services in the following areas:

- Development, maintenance and management of information infrastructure;
- Archival and documentary work;
- Work in the field of self-service products, cards, ATMs, digital communication channels;
- Transport of valuables;
- Collection of receivables.

The Bank acts to optimize the relation between the price and quality of the products and services purchased, as well as the efficient use of the Bank's resources and the selection of the most appropriate outsourcing supplier.

## Policy on Corruption and Bribery Prevention and Conflict of Interest Management in NLB Banka AD Skopje

The policy on Corruption and Bribery Prevention and Conflict of Interest in NLB Banka AD Skopje is aimed at protecting the interests of the Bank in the event of transactions that may lead to personal gain over the overall interest of the Bank. The Policy establishes and maintains a system of effective control and management of conflicts of interest that may arise in the performance of certain activities to the detriment of the interests of clients or potential clients of the Bank. The Policy on Corruption and Bribery Prevention and Conflict of Interest Management applies to all employees of the Bank, including members of the management bodies, i.e., the Management Board and the Supervisory Board, qualified shareholders in the Bank, significant business partners and clients, other Bank-related entities and all other persons related to the foregoing. According to the Banking Policy and the Banking Law, persons with special rights and responsibilities regularly submit a written statement every six months to the Supervisory and to the Management Board of the Bank on the existence or non-existence of a conflict of their personal interest with the Bank's interest.



## Policy for the Assessment of Suitability of Key Function Holders

The policy for assessing the suitability of the holders of key offices in NLB Banka AD Skopje determines the procedure for preparing the adequacy of holders of key offices assessment, i.e., the candidates for key offices and the criteria for preparing the adequacy of holders of key offices assessment, i.e., candidates for key office holders. The policy has been prepared in accordance with the provisions of the Banking Law and the NBRNM Decision on Good Corporate Governance rules for banks which specify the qualifications required to be possessed by the members of the Supervisory Board, the Management Board, the Audit Committee, the Risk Management Committee, as well as the other Persons with special rights and responsibilities set forth in the Statute of NLB Banka AD Skopje. In addition, this Policy incorporates the guidelines of ESMA (European Securities and Market Authority) and EBA (European Banking Authority) for assessing the adequacy of members of the management or supervisory bodies and of the key offices holders in banks.

## Preventing Money Laundering and Financing of Terrorism

In dealing with clients, the Bank is exposed to a variety of risks, including the risk of money laundering and terrorist financing being one of the foremost risks in the financial industry. In order to prevent this kind of risk, the Bank has adopted and consistently applies the Program for Money Laundering and Financing of Terrorism Prevention and the relevant internal acts that regulate this area and also cooperates with the competent institutions and correspondent banks. The Bank has fully implemented all instruments deriving from the positive regulations and NLB Group policies aimed at efficient detection and prevention of money laundering and terrorist financing.

## Information System Security

The information security of NLB Banka is implemented in accordance with the Decision for the Bank's Information System Security Methodology and the international standards ISO 27001 and 27002. According to the above, within the Bank an information security system has been established, which includes:

- Risk Assessment – through established continuous process of identifying weaknesses and threats to its information systems, including the risk of attacks in the digital space;
- Implementation of security controls - through incident monitoring and operational controls (administrative, physical and technical controls) to protect the security of information and systems at multiple levels;
- Monitoring and upgrading - through an established process of continuous collection and analysis of information in terms of emergence of new threats and weaknesses of the information system, including threats in the digital space;
- Implementation of security controls - by monitoring incidents and operational controls (administrative, physical and technical controls) which protect the security of information and systems at multiple levels;
- Evaluating the security and testing the resistance of the systems to attacks in the digital space;
- Division of competencies of the Bank's bodies from the aspect of risk management related to the security of the information system;
- Business Continuity Assurance –through defined business continuity plan that will be based on multiple scenarios and will enable operation and minimize losses in the case of a severe disruption to the business processes.

## Organizational structure of the Bank

During 2021, several significant changes were made in the organizational structure of NLB Banka. First, the Risk Management Division was divided into two new divisions, the Risk, Evaluation and Control Division and the Credit Risk Divisions, within which new organizational units (departments) were established. The need for this reorganization arose from the expanded scope of activities, the transfer of activities from other divisions, as well as the need for more detailed regulation of operations in the field of risk management.

In the second part of the year, due to the need for a more focused approach in the preparation of integrated reports, the organizational unit in charge of this part of the work ceased to exist as an independent unit, and responsibilities were distributed to other OUs according to the methodological affiliation of reports, mostly in risks divisions.

In addition to the mentioned changes, other adjustments have been made to the responsibilities of the existing organizational units, and a new job position - Authorized person for personal data protection was determined.

The organizational structure is shown in Annex 2 of this report.

## Share capital and ownership structure

### Share capital

The Bank's share capital on 31.12.2021 consists of 854,061 ordinary shares with a nominal value of MKD 1,000 per share or a total of MKD 854,061,000. The shares are registered and entered with the Central Securities Depository of RNM.

The ordinary shares give the owners the right to dividend and voting right at the shareholders' assembly. An ordinary share carries the right to one vote.

According to the Bank's share book, on 31.12.2021, 816 ordinary shares i.e., 0.0955% of the total share capital of the Bank (2020: 816 ordinary shares i.e., 0.0955%) have limitation of shares with voting right based on law and/or a decision of a competent authority.

During 2021, the Bank did not issue any new issue of shares, nor did it repurchase its own shares.

### Number of shareholders and structure

On 31.12.2021, the number of shareholders in the Bank is 977 (2020: 939). Of these, 846 are individuals (2020: 801) and 131 are legal entities (2020: 138).

**Table 17.** Shareholders' structure

	<b>2021</b>	
<b>Shareholders structure</b>	<b>Number of shares</b>	<b>% of shares</b>
<b>NLB d.d.</b>	<b>742.804</b>	<b>86,97%</b>
<b>Other shareholders</b>	<b>111.257</b>	<b>13,03%</b>
Individuals	77.417	71,98%
Legal entities	33.840	28,02%

The sole shareholder with a share of over 5% in the total number of issued shares of NLB Banka AD is Nova Ljubljanska Banka d.d. Ljubljana, with 86.97% stake (742.804 shares) in the total number of shares of the Bank. NLB d.d. as the biggest shareholder manages the Bank through its representatives in the Supervisory Board. The NLB Group is the largest banking and financial group in the Republic of Slovenia, with a strategic focus on selected markets of the SEE countries and is a recognized international brand. Since November 2018, the shares of NLB d.d. Ljubljana are listed on the stock market, while at the same time, the shares of NLB d.d. were included in the trading on the main market of the London Stock Exchange. During 2019, the privatization process of NLB d.d. Ljubljana was finalized, with which the Republic of Slovenia remained the dominant owner with 25% of the shares plus one ordinary share.

### Stock exchange listing

The Bank's shares are listed on the official market of the Macedonian Stock Exchange under the mandatory listing segment - ordinary shares, registered under ISIN: MKTNBA101019. The Bank's shares are traded on the secondary market on the Stock Exchange through authorized brokerage houses.

The Bank's shares are part of the Macedonian Stock Exchange Index MBI10.

In accordance with the Listing Rules, the Bank regularly reports to the Stock Exchange on its operations, on the members of its management, the management and the legal relations with third parties and on events and information relevant to the Bank's operations according to pre-determined

Calendar of events that is published on the information service of the Stock Exchange no later than the end of January of the current year.

### **Dividend policy**

Pursuant to the decisions on issuance of shares of the Bank, the shares are entitled to a dividend, which may be determined by a decision of the Bank's Shareholders' Assembly.

The payment of dividends depends on a number of factors, including the Bank's capital structure, risk appetite, profit, financial position, regulatory requirements, general economic and business conditions and future prospects.

The Bank's dividend policy envisages an annual dividend distribution of approximately 70% of the profit in the year for which the dividend is payable and is dependent on regulatory capital requirements.

The minimum level of capital (expressed as the capital adequacy ratio) that the Bank was to meet during 2021 is 15.5%, including the internal management buffer of 0.5%. The Bank should achieve and maintain an adequacy ratio of 16.25%, including the internal management buffer of 0.5% by 31.03.2022 at the latest.

Considering the economic crisis caused by the Covid 19 pandemic, and in accordance with the Decision adopted by the National Bank's Council on 26.02.2021, a temporary limitation of the distribution and payment of dividends to the shareholders of the banks was envisaged, in order to further increase the resistance of the banking system as a whole and maintaining financial stability. In August 2021, during a reassessment of the circumstances, the NBRNM revoked the Decision on temporary limitation of the distribution and payment of dividends to the shareholders of the banks, allowing the distribution of the dividend to be decided by the shareholders of the banks. Accordingly, in accordance with the Decision on the utilization and distribution of the accumulated profit of NLB Banka AD Skopje for 2019 and 2020 adopted at the Annual Shareholders' Assembly of the Bank on 19.11.2021, an amount of 1,526.2 million MKD for dividend (or 1,787 MKD per share) was allocated and MKD 1,168.4 million for the general reserve fund.

## XVI. Strategy and future outlooks

Based on the updated Strategy of the NLB Group, the Bank adopted the Budget for 2022 and the financial projections for the period 2022-2026. The strategic focus on creating an improved customer experience based on technological innovations, changes in the work processes and further automation and digitalization of operations, as well as education and upgrading of competencies and knowledge of employees at various levels, in order to foster the desired organizational culture as a foundation for providing top customer service.

The Bank will continue to be fully committed to its primary activities - lending to households and businesses, as well as customer support in business restart projects and investment activities. Thereby, in lending to the economy, priority will be given to projects in the areas of electricity production from renewable sources, reduction of pollution and improvement of the environment.

Digitalization remains the main strategic commitment of the Bank and will be at the center of its activities in the coming years. In parallel with providing quality customer service through traditional channels, intensive work will be done on expanding the product portfolio with innovative digital products and services in accordance with world trends. As a leader in this field, in conditions of healthy and strong market competition, the Bank will influence the further development, improvement of the quality, availability and speed of banking services in the country and in the region. New products and upgrades to existing applications will be developed to enable greater availability of banking services and facilitate interaction, so that online interactions and transactions are much simpler, faster and, above all, more secure for customers.

Customer satisfaction and top customer experience when contacting the Bank is the starting point in the overall operation and remains the primary focus, in order for the services to be available at all times to the end users. In this context, activities for personalized approach to customers, intuitive services that recognize their needs and requirements, digitalized sales and sales of products through self-service channels, such as cash machines and mobile banking, will be intensified.

An integral part of the Bank's strategy is the care for the common good as one of the highest priorities in the value system. By supporting projects in the field of culture, sports, science, education, environment, children and youth, the Bank strives to contribute to improving the overall quality of life of individuals, families, institutions and organizations.

By joining the initiatives for raising awareness for sustainable development on a global level, the Bank will work in accordance with the Corporate Sustainability Strategy of the NLB Group through more intensive integration of sustainability in its operations.

Hence, through its activities, the Bank will continue to be a serious partner in the future and to continuously give its contribution to the wider community, in all segments of social life.

Skopje, March 2022

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

## Annexes

### Annex 1. Statement by the Members of the Management Board on the application of the Corporate Governance Code



#### Изјава

#### за примена на Кодекс за корпоративно управување на НЛБ Банка АД Скопје

Кодексот за корпоративно управување на НЛБ Банка АД Скопје подетално ги определува стандардите на управување и раководење на органите на НЛБ Банка АД Скопје и водејќи се од истите Банката воспоставува јасна организациска структура, транспарентен и разбирлив систем на управување кој го зголемува нивото на доверба како на домашните, така и на странските инвеститори, и на вработените.

Изјавуваме дека НЛБ Банка АД Скопје го применува Кодексот за корпоративно управување на Банката (бр. 0309 - 55/2020) одобрен од страна на Надзорниот одбор на Банката и истиот е јавно достапен на веб страна на Банката [www.nlb.mk](http://www.nlb.mk).

Отстапувања од правилата на Кодексот за корпоративно управување на НЛБ Банка АД Скопје не постојат и правилата на Кодексот претставуваат обврска за сите органи на Банката, како и за нејзините вработени.

Изјавуваме дека НЛБ Банка АД Скопје ќе започне да ги применува најдобрите практики и принципи пропишани со новиот Кодекс за корпоративно управување на акционерските друштва котирани на Македонска берза, кој е во примена од 26 октомври 2021 година во рамки на рокот утврден за негова задолжителна примена.

Скопје, Јануари 2022 година

A blue ink signature of Igor Davchevski.

Игор Давчевски  
Член на Управен одбор

A blue ink signature of Gunter Friedl.

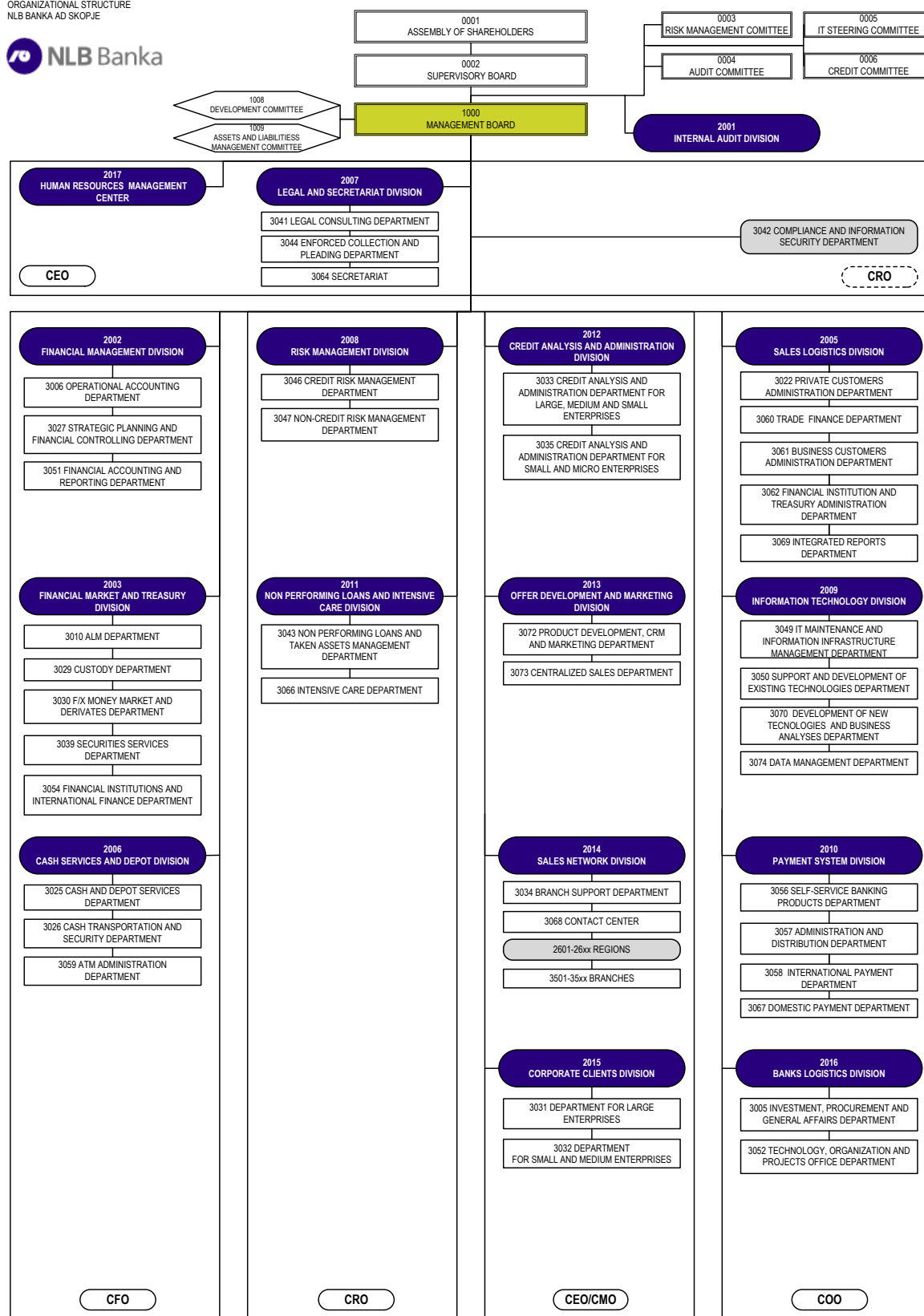
Гинтер Фриедл  
Член на Управен одбор

A blue ink signature of Peter Zelen.

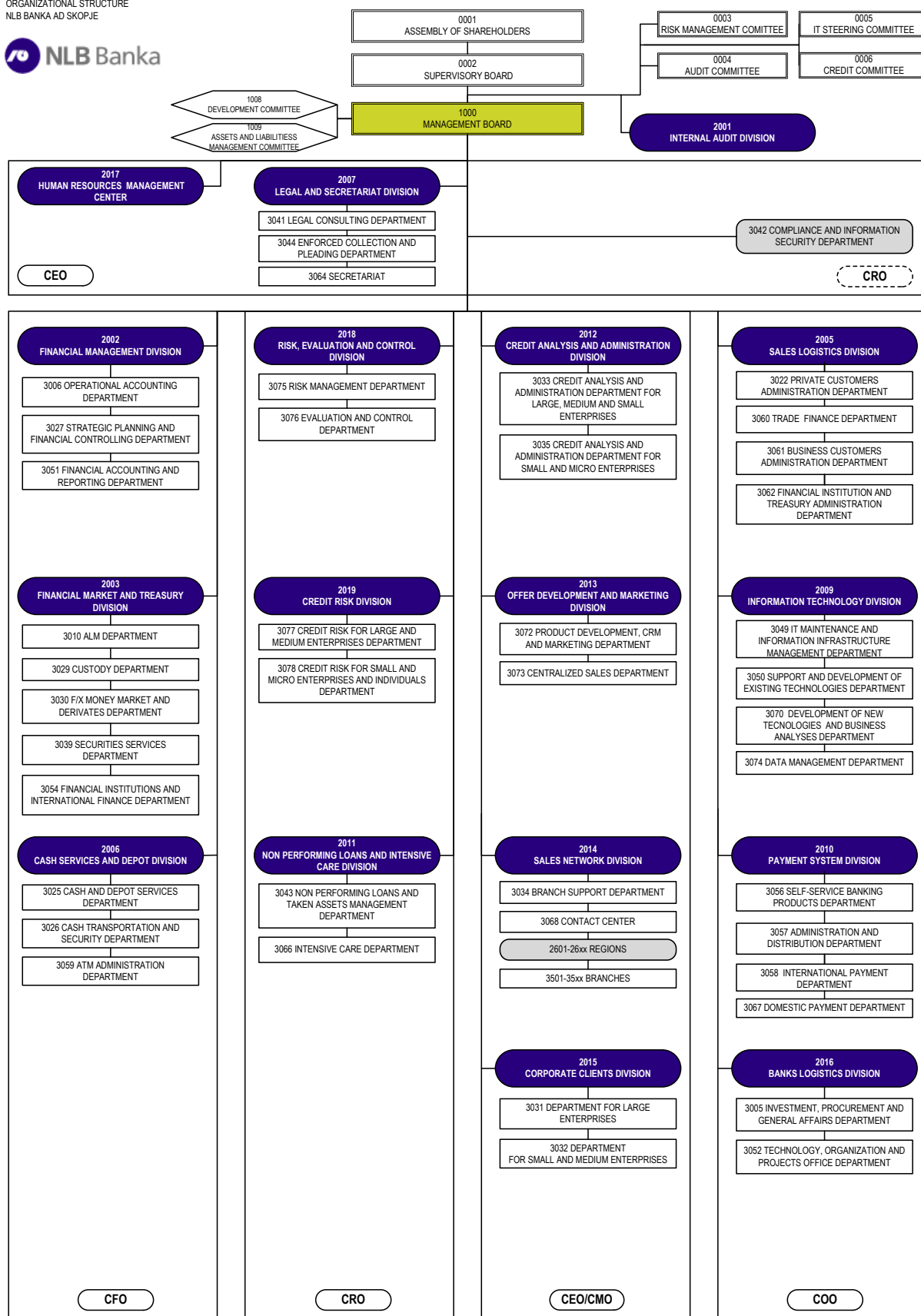
Петер Зелен  
Член на Управен одбор

A blue ink signature of Branko Greganovik.

Бранко Грегановиќ  
Претседател на  
Управен одбор

**Annex 2.** Organizational structure of NLB Banka until 29.07.2021ORGANIZATIONAL STRUCTURE  
NLB BANKA AD SKOPJE

## Organizational structure of NLB Banka since 29.07.2021

ORGANIZATIONAL STRUCTURE  
NLB BANKA AD SKOPJE

## **Opinion on the Annual report of the Bank for 2021**

The annual operational report of NLB Banka AD Skopje for 2021 covers Bank's operation in the period from 01.01.2021 until 31.12.2021. In the report, the realization of individual banking activities, both regarding the main financial activities and to all other activities are presented in a systematized way, which have to be reported pursuant to the Company Law, the Banking Law and the Decision on good corporate governance rules for banks.

The report includes data on the changes of the macroeconomic and market conditions the Bank was operating under and the changes of the regulation which directly or indirectly affected the achievement of the financial result and the market position.

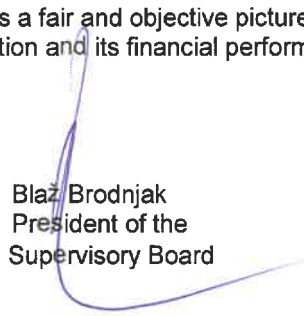
The achieved financial results and the achievement of the planned business and strategic goals for 2021 are presented pursuant to the legal regulations applicable in the RNM.

The operational activities are presented in more details as per separate market segments and show the achieved results as per Bank's individual financial and nonfinancial activities.

Bank's way of risk management is presented in detail and shows existence of an integrated risk management system in the Bank. Additionally, are presented information about the human resources management in the Bank, the information technology management, the marketing activities carried out as preconditions for successful operation, better and higher quality management of the Bank, respect of and compliance with all legal regulations and achievement of the goals planned for 2021.

In the report are integrally presented Bank's corporative management, the operation and the activities of the bodies and their members, the fulfilment of the obligations referring to prevention of money laundering and information system safety, the changes of Bank's organizational structure and the activities for promotion of corporative social responsibility. The report provides a complete picture on the conditions and changes of Bank's own funds and the shareholders structure about shareholders with a share of over 5% in Bank's capital.

According to our opinion, the Annual Report reflects a fair and objective picture of the Bank's operation in 2021, the condition of its financial position and its financial performance.



Blaž Brodnjak  
President of the  
Supervisory Board