**UNIVERSAL INVESTMENT BANK**
**AD - Skopje**

# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDING 31 DECEMBER 2020 (According IFRS)

**Skopje, April 2021**

# Contents

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNIVERSAL INVESTMENT BANK AD - Skopje

We have audited the accompanying financial statements of Universal Investment Bank AD - Skopje ("The Bank"), which comprise the Statement of Financial Position as at 31 December 2020, and the Income Statement, Statement of Comprehensive Income, Statement of changes in equity and Cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the 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 the Audit Law and International Standards on Auditing which are accepted and published in the Official gazette of the Republic of Macedonia (79/2010). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 polices used and the reasonableness of accounting estimates made by the 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.

**INDEPENDENT AUDITOR'S REPORT (Continued)**
**TO THE**
**SHAREHOLDERS OF**
**UNIVERSAL INVESTMENT BANK AD - Skopje**

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Universal Investment Bank AD - Skopje as of 31 December 2020, and of its financial performance and its cash flows for the period then ended in accordance with the International Financial Reporting Standards.

Skopje, 26 April 2021

| **Certified Auditor** | **Manager and Certified Auditor** |
|---|---|
| Milena Jovanova Dimoska | Antonio Veljanov |

Друштво за ревизија МУР СТИВЕНС ДОО СКОПЈЕ

# Statement of comprehensive income

| | Notes | (In 000 MKD) For the year ending 31 December 2020 | 2019 |
|---|---|---|---|
| Interest income | | 1,120,954 | 1,069,343 |
| Interest (expense) | | (269,107) | (278,721) |
| **Net interest income** | 5 | 851,847 | 790,622 |
| Fee and commission income | | 406,296 | 378,476 |
| Fee and commission (expense) | | (218,190) | (211,389) |
| **Net fee and commission income** | 6 | **188,106** | **167,087** |
| Net foreign exchange gains | | 34,864 | 27,475 |
| Other operating income | 7 | 58,295 | 35,320 |
| **Operating income** | | **1,133,112** | **1,020,504** |
| (Additional) / Release of impairment provision on financial assets and special reserve, net | 8,24 | (100,109) | (167,925) |
| Personnel expenses | 9 | (320,420) | (323,250) |
| Amortization and depreciation | 18,19 | (54,308) | (54,287) |
| Other operating expenses | 10 | (231,202) | (230,714) |
| **Operating (expenses)** | | **(706,039)** | **(776,176)** |
| **Profit before tax** | | **427,073** | **244,328** |
| Income tax (expense) | 11 | (40,123) | (21,465) |
| **Net profit for the year** | | **386,950** | **222,863** |
| **Other comprehensive income** | | | |
| Other comprehensive income for the year | | | |
| **Total comprehensive income for the year** | | **386,950** | **222,863** |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (in Denars) | 12 | 709 | 408 |

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# Statement of financial position

(In 000 MKD)

| | Notes | As at 31 December 2020 | 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 13 | 6,124,494 | 5,524,339 |
| Loans and advances to banks | 14 | - | - |
| Loans and advances to customers | 15 | 16,741,587 | 16,379,390 |
| Investment securities | 16 | 136,805 | 136,388 |
| Foreclosed assets | 17 | 20,933 | 6,871 |
| Investment in subsidiaries | 18 | - | - |
| Intangible assets | 19 | 87,440 | 93,050 |
| Property and equipment | 20 | 420,964 | 451,567 |
| Other receivables | 21 | 250,829 | 105,973 |
| **Total assets** | | **23,783,052** | **22,697,578** |
| **Liabilities** | | | |
| Due to banks | 22 | 251,321 | 644,649 |
| Due to customers | 23 | 19,373,621 | 18,293,580 |
| Borrowings | 24 | 1,165,543 | 1,125,146 |
| Provisions and special reserve | 25 | 4,696 | 4,175 |
| Current tax liabilities | | 15,052 | 2,302 |
| Deferred tax liabilities | 11 | 1,848 | 386 |
| Other liabilities | 26 | 102,510 | 118,191 |
| **Total liabilities** | | **20,914,591** | **20,188,429** |
| **Equity and reserves** | | | |
| Share capital | 27 | 545,987 | 545,987 |
| Share premium | | 510,387 | 510,387 |
| Other ownership instruments | | 301,461 | 301,461 |
| Reserves | | 1,033,092 | 812,343 |
| Retained earnings | | 477,534 | 338,972 |
| **Total equity and reserves** | | **2,868,461** | **2,509,150** |
| **Total liabilities, equity and reserves** | | **23,783,052** | **22,697,578** |
| Commitments and contingencies | 28 | 1,911,874 | 1,861,359 |

These financial statements have been authorized by the Bank's Supervisory Board on 23 April 2021.

Signed on behalf of the Board of Directors by:

| Milka Todorova | Delcho Krastev | Vladislav Hadjidinev |
|---|---|---|
| Chairman of the Managing Board, Executive Officer | Member of the Managing Board, Executive Officer | Member of the Managing Board, Executive Officer |

UNIVERZALNA INVESTICIONA BANKA AD SKOPJE

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# Statement of changes in equity

| (In 000 MKD) | Share capital | Share premium | Other ownership instruments | Reserves | Retained earnings / Accumulated (losses) | Total equity |
|---|---|---|---|---|---|---|
| **At 01 January 2019** | **545,987** | **510,387** | | **558,773** | **369,678** | **1,984,825** |
| Other ownership instruments | - | - | 301,461 | - | - | **301,461** |
| *Transactions with owners* | | | | | | **-** |
| Distribution to reserves | - | - | - | 253,570 | (253,570) | **-** |
| *Total transactions with owners* | - | - | - | 253,570 | (253,570) | **-** |
| Profit for the year | - | - | - | - | 222,864 | **222,864** |
| *Other comprehensive income* | - | - | - | - | - | **-** |
| Total comprehensive income | - | - | - | - | 222,864 | **222,864** |
| **At 31 December 2019** | **545,987** | **510,387** | **301,461** | **812,343** | **338,972** | **2,509,150** |
| | | | | | | |
| **At 01 January 2020** | **545,987** | **510,387** | **301,461** | **812,343** | **338,972** | **2,509,150** |
| Other ownership instruments | - | - | - | | - | **-** |
| *Transactions with owners* | | | | | | **-** |
| Distribution to reserves | - | - | - | 220,749 | (220,749) | **-** |
| *Total transactions with owners* | - | - | - | 220,749 | (220,749) | **-** |
| Profit for the year | - | - | - | - | 386,950 | **386,950** |
| Payment of interest on a perpetual bond | - | - | - | - | (27,639) | (27,639) |
| *Other comprehensive income* | - | - | - | - | - | **-** |
| Total comprehensive income | - | - | | - | 359,311 | 359,311 |
| **At 31 December 2019** | **545,987** | **510,387** | **301,461** | **1.033,092** | **477,534** | **2,868,461** |

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# Statement of cash flows

| | Notes | 2020 | 2019 |
|---|---|---|---|
| | | (In 000 MKD) | |
| | | Year ended 31 December | |
| | Notes | 2020 | 2019 |
| **Operating activities** | | | |
| Profit before taxation | | 427,073 | 278,243 |
| Adjustment for: | | | |
| Amortization and depreciation | | 54,308 | 54,287 |
| Additional / (Release of) impairment provision on financial assets, net | | 113,940 | 167,925 |
| Impairment losses on foreclosed assets | | 561 | (30,902) |
| Additional / (Release of) impairment provision and special reserve, net | | - | - |
| Dividend income | | (1,513) | (1,969) |
| (Gain) / loss from foreclosed assets sold | | 4 | (6,849) |
| (Gain) from property and equipment sold | | (29,786) | (55) |
| Interest income | | (1,120,164) | (1,069,343) |
| Interest expense | | 269,107 | 278,721 |
| Other corrections | | 14,780 | (41,205) |
| (Loss) before changes in operating assets and liabilities | | **(271,690)** | (371,147) |
| *Changes in operating assets and liabilities* | | | |
| Loans and advances to banks | | - | - |
| Obligatory reserves in foreign currency | | (4,475) | 32,087 |
| Loans and advances to customers | | (250,101) | (2,501,035) |
| Foreclosed assets | | (24,856) | 46,888 |
| Other receivables | | (146,526) | (17,133) |
| Due to banks | | (391,692) | (34,091) |
| Due to customers | | 1,053,119 | 1,651,721 |
| Other liabilities | | (17,143) | (8,091) |
| Profit/ (Loss) after changes in operating assets and liabilities | | **(53,364)** | **(1,200,801)** |
| Proceeds from interest | | 904,303 | 1,065,716 |
| Interests (paid) | | (243,905) | (213,704) |
| Income tax (paid) | | (25,911) | (28,769) |
| **Net cash (used in) / from operating activities** | | **581,123** | **(377,558)** |
| **Investment activities** | | | |
| Investments in securities | | - | (122,971) |
| (Purchase) of property, plant and equipment and intangible assets, net | | 11,687 | (35,744) |
| Sale of investment securities, net | | - | - |
| Other inflows from investment activities | | 1,513 | 1,969 |
| **Net cash from investments activities** | | **13,200** | **(156,746)** |
| **Financial activities** | | | |
| Proceeds from issued ownership instruments during the period | | - | 301,461 |
| Proceeds from borrowings | | 581,451 | 590,083 |
| (Repayment of) borrowings | | (544,471) | (392,746) |
| (Repayment of) subordinated liabilities | | - | - |
| Payment of interest on a perpetual bond | | (27,639) | |
| **Net cash from / (used in) financial activities** | | **9,341** | **498,798** |
| **Net change in cash and cash equivalents** | | **603,664** | **(35,506)** |
| Cash and cash equivalents, beginning of the year | | 4,893,551 | **4,929,057** |
| **Cash and cash equivalents, end of the year** | **13** | **5,497,215** | **4,893,551** |

# Notes to the Financial Statements

## 1 General information

Universal Investment Bank, Skopje (hereinafter "the Bank") is a Shareholding Company incorporated in the Republic of North Macedonia. The address of its registered head office is: "St. Maksim Gorki" 6, 1000 Skopje, Republic of North Macedonia.

The Bank is licensed to perform all banking activities in accordance with the law. The main activities include commercial lending, receiving of deposits, payment operation services in the country and abroad, foreign exchange deals, trust activities and other services.

The Bank's shares are quoted on the Macedonian Stock Exchange, at segment mandatory listing for companies with special reporting obligations. The quotation code is the following:

| Code of shares | ISIN |
|---|---|
| UNI (ordinary share) | MKBLBA101011 |

The total number of employees in the Bank as at 31 December 2020 and 2019 is 384 and 410 employees, respectively.

## 2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

### 2.1 Basis for preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) that were issued by the International Accounting Standards Board (IASB). Financial statements have been prepared in accordance with the concept of historical cost convention, except for securities available for sale that are measured at fair value and foreclosed assets that are measured at the lower of cost or fair value less costs to sale. The basis for measuring each kind of asset, liability, income and expense are disclosed further within this Note.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Bank's Management to exercise judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4: Critical accounting estimates and judgments.

The financial statements have been prepared as at and for the years ended 31 December 2020 and 2019. The financial statements are presented in Macedonian Denar ("MKD"), which is the Bank's functional currency. Current and comparative data stated in these financial statements are expressed in Denar thousands. Where necessary, comparative figures have been adjusted to conform to the changes in presentation for the current year.

## 2.2 Changes in accounting policies and disclosures

**a) New and revised standards effective for annual periods beginning on or from 1 January 2020**

At the date of authorization of these financial statements, certain new standards and amendments and interpretations of existing standards have been published by the IASB. All relevant publications have been applied to the Bank's accounting policies in the first period beginning at the effective date of the publication. New standards / amendments have no significant effect over the Bank's financial statements.

The following standards and amendments have become effective for the annual periods commencing on or after 1 January 2020:

- Amendments to IFRS 3 – Definition of a business
- Amendments to IAS 1 and IAS 8 – Definition of Materiality
- Revised conceptual framework for financial reporting
- Amendments to IFRS 7, IFRS 9 and IAS 39 - Interest Rate Benchmark Reform
- Amendments to IFRS 16 "Leases" provide practical expediency that allows the lessee to take into account the relief of rental arrangements that arise as a direct result of the COVID-19 pandemic and while meeting certain conditions, as if it were not intended to be amended. lease. However, these amendments apply to annual periods beginning on or after 1 June 2020.

**б) Standards, amendments to and interpretations of the existing standards that are not effective yet and have not been applied prior to the effective date by the Bank**

The following standards and amendments will become effective for the annual periods beginning on or after 1 January 2021:

- Amendments to IFRS 16 - Lease incentives related to COVID 19
- IFRS 17 Insurance Contracts
- Amendments to IAS 1 - Classification of liabilities as current or non-current
- Amendments to IAS 16 - Property, Plant and Equipment — Proceeds before Intended Use
- Amendments to IFRS 3 - Reference to the conceptual framework
- Amendments to IAS 37 - Onerous Contracts — Cost of Fulfilling a Contract
- Annual Improvements to IFRSs 2018-2020 Cycle
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture
- Amendments to IFRS4, IFRS 7, IFRS 9, IFRS 16 and IAS 39 - Interest Rate Benchmark Reform

## 2.3 Foreign currency transactions

Transactions in foreign currencies are translated to Macedonian Denars at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian Denars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Macedonian Denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Macedonian Denars at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising from retranslation are recognized in profit or loss. The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD).The exchange rates used for translation at 31 December 2020 and 2019 were as follows:

| | 2020<br>MKD | 2019<br>MKD |
|---|---|---|
| 1 EUR | 61.6940 | 61.4856 |
| 1 USD | 50.2353 | 54.9518 |

## 2.4 Off-setting

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

## 2.5 Interest income and expenses

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, (transaction costs, and discounts or premiums) that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in profit or loss include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis.

## 2.6 Fees and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including financial services provided by the Bank in respect of foreign currency settlements, guarantees, letters of credit, domestic and foreign payment operations and other services, are recognized as the related services are performed.

Other fees and commission expenses relate mainly to financial service fees, which are expensed as the services are received.

## 2.7 Dividends

Dividend income is recognized when the right to receive income is established. Dividends are reflected as a component of net trading income, or dividend income based on the underlying classification of the equity instrument.

## 2.8 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

## 2.9 Current and deferred income tax

Current tax expense at 10% rate is paid to profit for the year which is determined as the difference between total revenues and total expenses for the period, increased with the non – recognized expenses for tax purposes adjusted for tax credit and less declared revenue. The tax base is reduced for the amount of income from dividends realized through participation in the capital of another taxpayer - resident of the Republic Macedonia, stipulating they are subject to tax expense by the taxpayer who pays the dividend. Taxpayers that will pay dividends and other distributions from the retained earnings created in the period from 2009 to 2013 will also have the obligation to calculate and pay tax for those distributions.

Deferred tax expense is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The tax rates that are currently valid are used in determination of deferred tax expense. Deferred tax expense is charged or credited in the profits and losses except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

## 2.10 Financial assets and liabilities

### Recognition

Regular purchases and sales of financial assets and liabilities are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value adjusted for (for an item not subsequently measured at fair value through profit or loss), transaction costs that are directly attributable to its acquisition or issue.

### Classification

The Bank classifies its financial assets into the following categories: loans and receivables, held to maturity and available for sale (see accounting policies 2.12, 2.13 and 2.14).

The Bank's financial liabilities include deposits, borrowings and other liabilities (see accounting policy 2.21).

### Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the Statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

### Measurement at amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

### Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value can be assessed differently, depending on whether or not the asset or liability is traded in an active market.

*Active market: Fair value*

A financial asset is considered to be traded in an active market if the published prices are readily and regularly available from the Stock Exchange, dealers, brokers, over the counter, industry groups or regulatory agencies and those prices represent the current and regular market transactions on normal, commercial basis. The appropriate quoted market price for an asset held or a liability that is to be issued is usually the current market (buying) price; for an asset that is about to be acquired or a liability held it is the current selling price.

*Absence of an active market: Valuation techniques*

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique in the following order:

- Application of information onnegotiated prices for recent(from the past 6 months), normalcommercialtransactionsfor the samefinancial instrumentbetween informed, willingparties
- If the previous valuation technique cannot be applied (there is no information available on the negotiated prices for recent transactions concerning the same financial instrument) then to determine the fair value the current market price of another, basically same, instrument should be used (in regards to the currency or the same or similar maturity date);
- If the information for fair value of the previous two techniques is inappropriate or cannot be applied, the fair value of the financial instrument is determined through analysis of the discounted cash flows or other alternative models for price determination.

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

Discount rate should include:

- Uncertainties and risks from cash flow assessment, related to certain asset or liability, due to the fact that those risks and uncertainties will change
- The measurement purpose.

If the fair value of equity instruments not traded in an active market and the derivatives related to them which have to be settled with unquoted equity instruments cannot be reliably measured, those instruments should be carried at theircost.

## 2.11 Impairment of financial assets

The Bank assesses, on a monthly basis, whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank analyses impairment evidence on loans, receivables and securities on individual basis. All individually significant loans and receivables are analyzed on an individual basis.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency of payments by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognized through the unwinding of the discount. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities as a difference between the cost and fair value are recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

## 2.12 Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks, cash deposited with the National Bank of the Republic of North Macedonia ("NBRNM") and highly liquid financial assets with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term liabilities.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

## 2.13 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

## 2.14 Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit and loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

### Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are measured at amortized cost using the effective interest method. If the Bank buys debt securities classified as held-to-maturity, with discount or premium, the amount of the obtained discount or premium will be recorded on the discount or premium accounts within the appropriate group of accounts for investments in held-to-maturity securities. Other commissions and fees that are integral part of the effective interest rate, as well as transaction costs directly related to the transaction, are recorded on the accumulated amortization accounts within the appropriate group of investing accounts for held-to-maturity debt securities.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

### Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

## 2.15 Foreclosed assets

Foreclosed assets include property and equipment acquired through foreclosure proceedings, in full or partial recovery of a related loan and is disclosed in assets acquired through foreclosure proceedings. These assets are initially measured at the lower of the appraised value, less estimated costs to sell, chargedto the Bank and the cost of the foreclosed asset. The appraised value is determined by local certified appraiser on the date of foreclosure. The cost is the value stated in an enactment passed by a competent body from where the legal grounds for acquiring the right of the ownership arises.

After initial recognition, foreclosed assets are reviewed for impairment at least annually and are measured at the lower of their carrying amount and fair value less estimated costs to sell.

## 2.16 Property and equipment

### Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

### Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

### Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. No depreciation is charged for construction in progress. Depreciation rates, based on the estimated useful lives for the current and comparative period are as follows:

| | 2020 | 2019 |
|---|---|---|
| Buildings | 2,5% | 2,5% |
| Equipment | 14.3-25% | 14.3-25% |
| Vehicle | 25% | 25% |

Depreciation methods, useful lives and residual value are reviewed at each financial year-end and adjusted if appropriate.

## 2.17 Intangible assets

Recognition and measurement

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in profit and loss as incurred.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets. No amortization is charged for assets under development. The annual amortization rates based on the estimated useful lives for the current and comparative period are as follows:

| | 2020 | 2019 |
|---|---|---|
| Software | 10% | 10% |
| Rights and licenses | 10% | 10% |

## 2.18 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that continually generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a proportional basis. The recoverable amount of an asset or a cash generating unit (CGU) is the greater amount of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## 2.19 Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and, except for the leased assets, they are not recognized in the Bank's Statement of financial position.

## 2.20 Deposits, borrowings and other liabilities

Deposits, borrowings and other liabilities are the Bank's sources of debt funding. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

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

Deposits, borrowings and other liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method.

## 2.21 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

## 2.22 Employee benefits

### Defined contribution plans

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions.

There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due.

### Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Other long-term employee benefits

In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement and jubilee awards. The employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement.

## 2.23 Share capital and reserves

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are recognized as a deduction from equity.

Repurchase of share capital

Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold subsequently the amount received is recognized as an increase on equity, and the resulting surplus or deficit of the transaction is transferred to/from share premium.

Reserves

Reserves are generated throughout the period, based on distribution of profit in accordance with legal regulation and the Decisions made by the Bank's Assembly and changes if fair value of available for sale financial assets.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

## 2.24 Earnings per share

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

## 2.25 Segment reporting

A segment is a component of the Bank that can be distinguished and engaged in either the provision of products or services (operating/business segment) or the provision of products and services for certain economic areas (geographic segment) and is subjected to risks and rewards different from other segments. The Bank reports by primary operating segments.

## 2.26 Notable events during the reporting period

The global pandemic caused by COVID 19 has had severe economic consequences on the global economy, and analogously on the Macedonian economy. The National Bank and the Government of RNM have adopted a package of measures aimed at mitigating the consequences of the pandemic on the financial system in the country. According to the new situation with COVID-19, the NBRNM adopted a Decision for amending the decision on the credit risk management methodology with a view to relax the conditions for undertaking and measuring credit risk, for the duration of the state of emergency caused by COVID-19. The bank follows the economic trends in the national, regional and the global economy in order to gain useful information in the process of making appropriate business decisions. The Bank realizes its activity in 2020 in macroeconomic conditions significantly changed in relation to the initial growth projections of the domestic economy made in the financial plan for 2020.

The Bank takes all necessary measures and activities for adapting its operation to the new environment. In that direction The Bank revisited the initial projections and prepared a new revised plan for 2020, in order to harmonize the growth of credit and deposit portfolio, and the interest income and expenses in accordance with the state of emergency with COVID 19, taking into account the maintenance of the quality of the loan portfolio as well as finding flexible solutions to accommodate the needs and requirements of the clients adversely affected by the health and economic crisis.

Credit exposure of natural persons and non-financial legal entities

In the first quarter of 2020, at the very beginning of the pandemic, the Bank prepared precautionary stress tests for the impact of the health crisis on the Bank's credit risk, liquidity and solvency. The results showed that the Bank is resilient and would successfully withstand the shocks assumed in the stress tests.

Starting from April 2020, the Bank, through a public offer, implemented debt relief on clients' credit products, with the introduction of full moratorium of 6 months on exposures to individuals. The relieved conditions involve a grace period and complete postponement of credit liabilities, as well as prolongation of the loan deadline to retain the annuity unchanged. The Bank continuously and intensively monitors the portfolio of individual clients who accepted the offered Covid-measures loan relief to update their employment status, reduced income and creditworthiness and regularly contacts customers to find solutions acceptable to both parties.

As to the legal entities, the Bank approached them individually, following submitted requests from the company itself, taking into account the specifics of the company's activity, environment and financial projection for the forthcoming period. The adjustment of the contractual conditions for the non-financial legal entities has been made individually for each client in accordance with the financial analysis of the operation of the client through:
- approval of a grace period for payment of principal, interest and others obligations of the client (moratorium) or;
- approval of a grace period only for payment of principal, with monthly settlement of interest.

In numbers, the Bank provided debt relief to a total of 42,798 contracts with credit exposure of Denar 8,958,379 thousand, of which:
- Denar 527,333 thousand credit exposure to 224 legal entities and
- Denar 8,430,826 thousand credit exposure to 42,574 contracts of individuals.

After the end of the moratorium in November 2020, the Bank saw a negligible effect on the amount of provisions for loan exposures for which the impairment calculation is performed by discounting future cash flows.
In September 2020, through a public offer, the Bank undertook a second moratorium on a total of 576 contracts with a total credit exposure of Denar 823,103 thousand, as follows:
- Denar 435,408 thousand credit exposure for 158 contracts with companies and
- Denar 387,695 thousand for 418 contracts with individuals

Endangered sectors and forecast of the Bank

As of 31.12.2020 credit exposures to vulnerable sectors affected by the pandemic, where contractual changes have been made with the second relief are 158 contracts with total exposure of Denar 443,035 thousand.
The Bank's forecast is that in the future, difficulties in collection of claims might arise with clients working in the hotel business, catering and tourism, as well as some entities from the production and trade sector.

The bank is in constant contact with its customers and is restructuring their liabilities to the Bank in order to help them smoothly overcome this critical period in their operation.
As for the repercussions on the impairment, in the following period additional provisions are expected to arise as a result of the deterioration of the clients' financial indicators in the ongoing pandemic. It is difficult to project the final effect because there is still uncertainty about when the situation stabilizes and what the regulator's next decisions might be.

Treatment of non-performing pandemic exposures

In alignment with the amendments to the Decision on the credit risk management methodology (Official Gazette of RNM no. 76/20 and 116/20) the Bank made a change in the treatment of non-performing exposures to comply with the requirements of the NBRNM (by prolonging the referent due date for transfer of exposures into a worse risk category for two months).
Starting from 30.09.2020, the Bank continued to apply the provisions for defining non-performing credit exposures in accordance with the previously valid legislation defined in the Decision on the credit risk management methodology (Official Gazette of RNM no. 149/18) which resulted in an increase of Denar 2,349 thousand in the amount of impairments for 16 contracts of exposure from Denar 11,227 thousand which on 30.09.2020 were defined as regular exposures.

Impact of the pandemic on the Bank's liquidity

In 2020, the Bank registered an increase in the deposit base of companies and households by 4.74%, which helped realize the Bank's strategy in times of crisis to maintain a high level of liquidity ratio of over 20%. The growth also contributed to maintaining a stable and high level on other indicators that also assess the liquidity of the Bank.

Impact of the pandemic on the capital adequacy

The effects of the health crisis caused by the coronavirus on the rate of the Bank's capital adequacy as at 31.12.2020 are not material. Approved consumer loan moratoriums have led to a change in maturity, i.e. their maturity overstepped the 8-year mark which triggers a change in the risk weight in consumer loans (approved after January 1, 2016). To counteract this, the regulator amended the Decision on methodology for determining capital adequacy (Official Gazette of RNM no. 167/20). The amendments prescribe ignorance of the extended maturity of consumer loans comprised in the loan relief in the period from March 25 to September 30, 2020 when determining the total maturity.
The Bank maintained its high capitalization and stable solvency position while maintaining the capital adequacy ratio at the level of 16.55% as on 31.12.2020 which is significantly above the regulatory limit set at 13.75%.

## 2.27 Compliance with legislation

There is no non-compliance with the regulation prescribed by the NBRNM regarding solvency and capital adequacy, the Bank's exposure limits, the Bank's investments, the Bank's liquidity and the open foreign exchange position.

## 2.28 Events after the reporting date

Events after the reporting period that provide additional information about the Bank's position at the Statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

## 3 Financial risk management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

### Risk management framework

The Managing Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Managing Board has established the Asset and Liability Committee ("ALCO"), Credit Committee and Risk Management Committee established by the Supervisory Board which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Managing Board and Supervisory Board respectively.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank's Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank and the Bank`s compliance with the requirements of the NBRM related to risk management. In addition, the Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

## 3.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, issued guarantees and letters of credits and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual debtor's default risk, country and sector's risk).

### Management of credit risk

The Managing Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures up to EUR 500 thousand. All credit exposures over EUR 500 thousand must be approved by the Supervisory Board. Separate Bank's Credit departments (Department for Corporate Loans, Department for Retail loans and Credit Card Department) in close cooperation with the Risk Management Department are responsible for oversight of the Bank's credit risk, including:

### 3.1 Credit risk (continued)

- *Formulating credit policies,* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk.* Credit departments assess all credit exposures in excess of designated limits, prior to facilities being committed to customers.
- *Limiting concentrations of exposure* to geographies and industries (for loans and advances), and by issuer, credit rating assessment by respective institutions, market liquidity and country (for investment securities).
- *Banks's credit risk grading* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the risks. The risk grading system is used in determining where impairment losses may be required. The current risk grading framework consists of six grades reflecting various degrees of risk of default and the availability of collateral.
- *Reviewing compliance* with agreed exposure limits, including those for industries, country risk and product types. Regular reports for the credit exposure, risk grading and allowance for impairment are provided to the Risk Management Committee, and appropriate corrective action is taken.

Credit departments are required to implement credit policies and procedures and in assistance with the Risk Management Department are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Regular audits of Credit departments' processes are performed by the Internal Audit.

## 3.1 Credit risk (continued)

Analysis of maximum exposure to credit risk before collateral held

| *in Denar thousand* | Cash and cash equivalents | | Loans and advances to banks | | Loans and advances to customers | | Securities available for sale | | Other receivables | | Commitments and contingencies | | Total | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Neither, past due nor impaired | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Past due, but not impaired: | | | | | | | | | | | | | | |
| - Up to 30 days | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| - Up to 90 days | - | - | - | - | | | - | - | - | - | - | - | - | - |
| - Over 90 days | - | - | - | - | | | - | - | - | - | - | - | - | - |
| Individually impaired | (5,116,133) | (4,734,313) | - | - | 17,023,264 | 16,656,473 | 123,711 | 123,294 | 231,001 | 87,702 | 1,941,604 | 1,885,630 | 24,435,713 | 23,487,412 |
| Net carrying value before provision for impairment | **5,116,133** | **4,734,313** | - | - | **17,023,264** | **16,656,473** | - | - | **231,001** | **87,702** | **1,941,604** | **1,885,630** | **24,435,713** | **23,487,412** |
| (Provision for impairment) | - | - | - | - | (281,677) | (277,083) | (12) | (12) | (10,995) | (7,870) | (4,696) | (4,175) | (297,381) | (289,140) |
| **Net carrying value less provision for impairment** | **5,116,133** | **4,734,313** | - | - | **16,741,587** | **16,379,390** | 123,699 | 123,282 | **220,005** | **79,832** | **1,936,908** | **1,881,455** | **24,138,332** | **23,198,272** |

### 3.1 Credit risk (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to E in the Bank's internal credit risk grading system.

Past due, but not impaired loans

Loans and securities where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. As at 31 December 2020 and 2019, there are no loans with renegotiated terms.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

The general indicators used in establishing the need for allowance for impairment losses include:

- information on the financial difficulties of the client;
- information on breach of contract, including default or late payment of due liabilities;
- certainty that the client will go under bankruptcy proceedings;
- disappearance of an active market for a particular claim or financial instrument, or
- data suggesting that there is a decrease of the estimated future cash flows for group of credit exposures, compared to initial recognition, although the decrease cannot be related to individual credit exposure, including:
  - adverse changes in the client's creditworthiness (e.g. increased number of late payments), or deterioration of the national or local economic conditions that affect the payment of liabilities by the client (e.g. an increase of the unemployment rate in the geographical area of the client, reduction of the price of property that serves as The Bank calculates impairment and makes a special reserve within five internal rating grades).

For determining the allowance for impairment, starting from 2018, the Bank has classified the credit exposures in one of the three groups:

Group 1

- every financial asset at the initial recognition (except those acquired with explicit expected credit losses)
- financial assets with low credit risk
- financial assets with no significant deterioration of the creditworthiness at initial recognition

The allowance for impairment is equal to expected credit losses during the lifetime of the asset pondered with the probability that a certain default event occurs.

Group 2

- financial assets with significant deterioration of the creditworthiness after the initial recognition, but there is no objective evidence for impairment (transferred from Group 1), and

## 3.1 Credit risk (continued)

- financial assets acquired or issued with explicit credit losses

The allowance for impairment is equal to expected credit losses during the lifetime of the asset.

Group 3

- financial assets with objective evidence of impairment, and
- financial assets acquired or issued with explicit credit losses

The allowance for impairment is equal to expected credit losses during the lifetime of the asset.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans and advances to customers by internal rating grades:

*in Denar thousand*

| 2020 | Loans and advances to customers Gross | Impairment provision |
|---|---|---|
| Credit risk exposure classified in Group 1 | 16,574,594 | (46,127) |
| Credit risk exposure classified in Group 2 | 173,782 | (14,602) |
| Credit risk exposure classified in Group 3 | 274,888 | (220,948) |
| | 17,023,264 | (281,677) |
| 2019 | | |
| Credit risk exposure classified in Group 1 | 16,150,748 | (49,865) |
| Credit risk exposure classified in Group 2 | 207,944 | (24,365) |
| Credit risk exposure classified in Group 3 | 297,781 | (202,853) |
| | 16,656,473 | (277,083) |

### Write-off policy

The Bank writes off a loan/ investment debt security balance (and any related allowances for impairment) when the Supervisory Board determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Bank can also write off a loan/security balance (and any related allowances for impairment) on the base of a court decision when all other means for collection had expired.

### Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage, movable property, and other registered securities over assets, cash deposits, lien over shares, guarantees, administrative blockage and other forms of collateral. Estimates of fair value are based on the value of collateral assessed at the time of lending.

According to the Credit policy, depending on pledged collateral the Bank has the following types of loans:

- Mortgage loans;
- Loans with lien of movable property;
- Lombard loans with pledged shares;
- Loans with pledged shares;
- Loans with guaranties from third parties;
- Loans with administrative blockage;
- Loans covered by cash deposit;
- Other types of loans, including rights of tangible and intangible assets with determined price.

Value of collateral (fair value) estimated for the purposes of protection against credit risk

*in Denar thousand*

| 2020 | Loans and receivables from customers | Commitments and contingencies | Total |
|---|---|---|---|
| **Value of collateral for credit risk exposures subject to individual impairment** | | | |
| First-class security instruments | | | |
| - cash deposits (in a depot and/or limited to bank account) | 356,487 | 67,662 | 424,149 |
| -bank guarantees | - | - | - |
| -corporate guarantees | - | - | - |
| Property and equipment under pledge | 17,633,236 | 1,253,369 | 18,886,595 |
| Pledge of movable property | 646,692 | 214,697 | 861,389 |
| Other types of security | 1,478,607 | 110,583 | 1,589,190 |
| | **20,115,012** | **1,646,312** | **21,761,324** |

*in Denar thousand*

| 2019 | Loans and receivables from customers | Commitments and contingencies | Total |
|---|---|---|---|
| **Value of collateral for credit risk exposures subject to individual impairment** | | | |
| First-class security instruments | | | |
| - cash deposits (in a depot and/or limited to bank account) | 348,814 | 59,282 | 408,096 |
| -bank guarantees | - | - | - |
| -corporate guarantees | - | - | - |
| Property and equipment under pledge | 16,787,509 | 1,122,247 | 17,909,756 |
| Pledge of movable property | 686,219 | 208,895 | 895,114 |
| Other types of security | 1,049,087 | 39,671 | 1,088,757 |
| | **18,871,629** | **1,430,095** | **20,301,724** |

## 3.1 Credit risk

### Geographic sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographic region as at 31 December 2020 and 2019:

| *in Denar thousand* | Cash and cash equivalents | | Loans and advances to Banks | | Loans and advances to customers | | Securities available for sale | | Securities held to maturity | | Other receivables | | Commitments and contingencies | | Total assets | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Republic of Macedonia | 4,578,524 | 3,912,572 | - | - | 16,342,890 | 16,143,255 | - | - | - | - | 219,497 | 79,189 | 1,838,669 | 1,847,236 | 22,979,580 | 21,982,252 |
| EU members | 515,154 | 794,001 | - | - | 398,697 | 236,135 | - | - | 123,699 | 123,282 | 441 | 579 | 34,219 | 98,239 | 1,136,230 | 1,188,216 |
| OECD member countries (without European countries members of OECD) | - | - | - | - | - | - | - | - | - | - | 1 | - | - | - | 1 | - |
| Other European countries | 22,455 | 27,740 | - | - | - | - | - | - | - | - | 66 | 64 | - | - | 22,521 | 27,804 |
| Other countries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | 5,116,133 | 4,734,313 | - | - | 16,741,587 | 16,379,390 | - | - | 123,699 | 123,282 | 220,005 | 79,832 | 1,881,455 | 1,936,908 | 24,138,332 | 23,198,272 |

### Industrial sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by industrial sector as at 31 December 2020 and 2019:

| *In Denar thousand* | Loans and advances to customers | | Loans and advances to banks | | Securities available for sale | | Securities held to maturity | | Cash and cash equivalents | | Other receivables | | Commitments and contingencies | | Total assets | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Non residents | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Agriculture, forestry and fishery | 240,201 | 268,012 | - | - | - | - | - | - | - | - | 193 | 405 | 23,021 | 22,307 | 263,415 | 290,724 |
| Mining | 15,730 | 20,356 | - | - | - | - | - | - | - | - | 15 | 9 | 3,226 | 4,461 | 18,971 | 24,826 |
| Food industry | 254,939 | 274,667 | - | - | - | - | - | - | - | - | 88 | 128 | 27,545 | 34,731 | 282,572 | 309,526 |
| Textile industry clothing and footwear manufacturing | 250,228 | 241,457 | - | - | - | - | - | - | - | - | 156 | 176 | 83,904 | 66,541 | 334,288 | 308,174 |
| Chemical industry, production of building materials, production and processing of fuel, pharmaceutical industry | 169,121 | 167,510 | - | - | - | - | - | - | - | - | 1,400 | 704 | 22,230 | 15,701 | 192,751 | 183,915 |

Notes to the financial statements (continued)
Financial risk management (continued)

| | Loans and advances to customers | | Loans and advances to banks | | Securities available for sale | | Securities held to maturity | | Cash and cash equivalents | | Other receivables | | Commitments and contingencies | | Total assets | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *In Denar thousand* | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Production of metals, machinery, tools and equipment | 174,438 | 149,453 | - | - | - | - | - | - | - | - | 114 | 124 | 16,885 | 15,073 | 191,437 | 164,650 |
| Other manufacturing Industry | 229,509 | 276,657 | - | - | - | - | - | - | - | - | 2,796 | 1,413 | 35,008 | 22,972 | 267,313 | 301,042 |
| Supply of electricity, gas, steam and air conditioning | 2,954 | 10,968 | - | - | - | - | - | - | - | - | 14 | 19 | 4,880 | 2,488 | 7,848 | 13,475 |
| Water supply, waste water disposal, waste management and environment sanitation | 11,286 | 29,130 | - | - | - | - | - | - | - | - | 220 | 120 | 21,136 | 36,425 | 32,642 | 65,675 |
| Construction | 1,139,480 | 1,116,919 | - | - | - | - | - | - | - | - | 16,027 | 926 | 345,492 | 427,358 | 1,500,999 | 1,545,203 |
| Wholesaleand retail trade, repair of motorvehicles andmotor-cycles | 1,194,211 | 1,355,287 | - | - | - | - | - | - | - | - | 1,073 | 1,431 | 330,865 | 292,100 | 1,526,149 | 1,648,818 |
| Transport and storage | 517,131 | 531,096 | - | - | - | - | - | - | - | - | 14,122 | 447 | 162,179 | 160,757 | 693,432 | 692,300 |
| Facilities forlodging andfoodserviceactivities | 376,432 | 456,564 | - | - | - | - | - | - | - | - | 3,458 | 307 | 121,795 | 48,309 | 501,685 | 505,180 |
| Information and communication | 59,935 | 79,129 | - | - | - | - | - | - | - | - | 9,191 | 1,686 | 28,130 | 24,620 | 97,256 | 105,435 |
| Financialandinsuranceactiviti es | 294,177 | 251,207 | - | - | - | - | 123,699 | 123,282 | 5,116,133 | 4,734,313 | 49,137 | 36,162 | 12,050 | 3,122 | 5,595,196 | 5,148,086 |
| Activities related to realestate | 65,469 | 109,983 | - | - | - | - | - | - | - | - | 491 | 18 | 2,129 | - | 68,089 | 110,001 |
| Technicalandscientific activities | 162,393 | 146,633 | - | - | - | - | - | - | - | - | 596 | 1,087 | 35,203 | 30,650 | 198,192 | 178,370 |
| Administrative and auxiliary service activities | 59,142 | 65,449 | - | - | - | - | - | - | - | - | 1,128 | 133 | 20,767 | 27,492 | 81,037 | 93,074 |
| Public administrationand defense,compulsorysocialins urance | - | - | - | - | - | - | - | - | - | - | 50,015 | 5 | 0 | - | 50,015 | 5 |
| Education | 5,010 | 5,989 | - | - | - | - | - | - | - | - | 67 | 100 | 400 | 104 | 5,477 | 6,193 |
| Health and social care activities | 45,465 | 40,991 | - | - | - | - | - | - | - | - | 73 | 95 | 5,111 | 7,260 | 50,649 | 48,346 |
| Art, entertainment, recreation | 14,744 | 24,233 | - | - | - | - | - | - | - | - | 187 | 75 | 5,010 | 4,897 | 19,941 | 29, 205 |
| Other service activities | 40,061 | 32,118 | - | - | - | - | - | - | - | - | 188 | 178 | 6,728 | 6,066 | 46,977 | 38,362 |
| Individuals | 11,419,531 | 10.725.582 | - | - | - | - | - | - | - | - | 69,256 | 34,084 | 623,214 | 628,021 | 12,112,001 | 11,387,687 |
| **Total** | **16,741,587** | **16,379,390** | **-** | **-** | **-** | **-** | **123,699** | **123,282** | **5,116,133** | **4,734,313** | **220,005** | **79,832** | **1,936,908** | **1,881,455** | **24,138,332** | **23,198,272** |

## 3.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset received.

### Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury and Dealing Department receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury and Dealing Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position and market conditions are regularly monitored. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. Liquidity reports are submitted monthly to the NBRNM.

### Exposure to liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, required meeting business goals and targets set in terms of the overall Bank strategy.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Liquidity risk represents the risk for the Bank of becoming incapable of providing sufficient funds for settlement of its short-term liabilities when such liabilities fall due, or to provide such funds at much higher costs.

The Bank is exposed to daily withdrawals of funds from its available cash sources of current accounts, matured deposits, approved loans and other withdrawals.

The tables below analyses the Bank's liabilities and off balance sheet items, grouped according to their maturity based on the remaining period from the reporting date to the contracted maturity date at 31 December 2020 and 2019. The amounts are presented on a gross basis, i.e. not taking into account the amounts of accumulated amortization, impairment provision and allocated special reserve.

## 3.2 Liquidity risk

*in Denar thousand*

| 31 December 2020 | Less than one month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | 158,106 | - | 93,215 | - | - | 251,321 |
| Due to customers | 8,510,144 | 1,290,288 | 5,985,790 | 3,514,280 | 73,118 | 19,373,621 |
| Borrowings | 87,815 | 120 | 244,049 | 668,543 | 165,015 | 1,165,543 |
| Other liabilities | 84,628 | 625 | 106 | 6 | 14,716 | 100,081 |
| | **8,840,694** | **1,291,033** | **6,323,161** | **4,182,829** | **252,849** | **20,890,566** |
| **Total assets (contractual maturities)** | 6,480,367 | 1,016,031 | 3,764,042 | 7,128,624 | 5,126,810 | 23,515,873 |

| Off balance sheet items | Less than one month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Guarantees | 22,203 | 73,508 | 419,074 | 163,775 | 6,542 | 685,102 |
| Letter of credits | - | 6,063 | 12,249 | - | - | 18,312 |
| Other | 74,174 | 231,755 | 875,419 | 31,808 | - | 1,213,156 |
| | **96,377** | **311,326** | **1,306,742** | **195,583** | **6,542** | **1,916,570** |

*in Denar thousand*

| 31 December 2019 | Less than one month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | 56,824 | - | 587,825 | - | - | 644,649 |
| Due to customers | 7,298,235 | 1,947,389 | 4,307,314 | 4,662,171 | 78,472 | 18,293,580 |
| Borrowings | 93,289 | 1,601 | 256,435 | 664,104 | 109,717 | 1,125,146 |
| Other liabilities | 99,742 | 714 | - | - | 14,716 | 115,172 |
| | **7,548,089** | **1,949,704** | **5,151,574** | **5,326,275** | **202,905** | **20,178,547** |
| **Total assets (contractual maturities)** | **5,596,103** | **858,205** | **3,856,900** | **7,172,025** | **4,922,780** | **22,406,013** |

| Off balance sheet items | Less than one month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Guarantees | 18,280 | 72,981 | 383,995 | 291,714 | 5,000 | 771,970 |
| Letter of credits | - | 3,949 | 3,074 | - | - | 7,023 |
| Other | 88,273 | 187,260 | 774,981 | 36,027 | - | 1,086,541 |
| | **106,553** | **264,190** | **1,162,050** | **327,741** | **5,000** | **1,865,534** |

## 3.3 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

### Exposure to interest rate risk – non-trading portfolios

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is sensitive to changes in interest rates because for the majority of the interest-bearing assets and liabilities, the Bank has the right to simultaneously change the interest rates. When interest rates are decreasing, margins earned will also narrow, as liabilities interest rates will decrease with a lower percentage compared to assets interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

The table below analyses the Bank's interest rate gap position as at 31 December 2020and 2019. The interest bearing assets/ liabilities are grouped according to the remaining period until the next change in interest rates.

## 3.3 Market risks

Analysis of interest rate gap position (excluding portfolio held for trading and derivatives, if any)

*in Denar thousand*

| As at 31 December 2020 | Less than one month | From 1 to 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | **Total** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and cash equivalents | 4,546,652 | - | - | - | - | 4,546,652 |
| Loans and advances to banks | - | - | - | - | - | - |
| Loans and advances to customers | 564,668 | 1,162,392 | 7,572,822 | 5,412,887 | 1,737,486 | 16,450,255 |
| Investments in securities | - | - | - | 123,388 | - | 123,388 |
| Other receivables | - | - | - | - | - | - |
| | **5,111,321** | **1,162,392** | **7,572,822** | **5,536,275** | **1,737,486** | **21,120,295** |
| **Liabilities** | | | | | | |
| Due to banks | 159,137 | - | 92,541 | - | - | 251,678 |
| Due to customers | 8,458,394 | 1,061,821 | 7,013,079 | 2,606,209 | 5,367 | 19,144,871 |
| Borrowings | 92,130 | - | 243,171 | 679,578 | 148,538 | 1,163,416 |
| Other liabilities | - | - | - | - | - | - |
| | 8,709,661 | 1,061,821 | 7,348,791 | 3,285,788 | 153,905 | 20,559,965 |
| **Net interest rate gap position** | **(3,598,340)** | **100,571** | **224,031** | **2,250,487** | **1,583,581** | **560,330** |
| As at 31 December 2019 | | | | | | |
| **Assets** | | | | | | |
| Cash and cash equivalents | 4,161,459 | - | - | - | - | 4,161,459 |
| Loans and advances to banks | - | - | - | - | - | - |
| Loans and advances to customers | 473,332 | 1,045,307 | 7,711,487 | 5,299,017 | 1,742,930 | 16,272,073 |
| Other receivables | - | - | - | - | - | - |
| | 4,634,791 | 1,045,307 | 7,711,487 | 5,421,988 | 1,742,930 | 20,556,503 |
| **Liabilities** | | | | | | |
| Due to banks | 55,285 | - | 587,075 | - | - | 642,360 |
| Due to customers | 7,123,515 | 1,513,281 | 5,455,158 | 4,000,813 | - | 18,092,766 |
| Borrowings | 98,706 | - | 255,906 | 672,333 | 95,991 | 1,122,936 |
| Other liabilities | - | - | - | - | - | - |
| | 7,277,505 | 1,513,281 | 6,928,139 | 4,673,145 | 95,991 | 19,858,062 |
| **Net interest rate gap position** | **(2,642,714)** | **(467,974)** | **1,413,348** | **748,842** | **1,646,939** | **698,441** |

*Sensitivity analysis*

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2020, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2020 would respectively increase/decrease by approximately Denar 11,206 thousand (2018: decrease/increase by Denar 13,969 thousand).

## 3.3 Market risks

### Foreign currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term imbalances. The Denar is pegged to the Euro and the monetary projections envisage stability of the exchange rate of the Denar against Euro.

The following tables summarize the net foreign currency risk position of the Bank at 31 December 2020 and 2019:

| *in Denar thousand* | MKD | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| As at 31 December 2020 | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 4,849,086 | 812,682 | 180,826 | 281,900 | 6,124,494 |
| Loans and advances to customers | 10,014,869 | 6,597,549 | 129,169 | - | 16,741,587 |
| Loans and advances to banks | - | - | - | - | - |
| Investment securities | 13,106 | 123,699 | - | - | 136,805 |
| Other receivables | 233,179 | 15,726 | 1,780 | 144 | 250,829 |
| **Total Assets** | 15,110,240 | 7,549,656 | 311,775 | 282,044 | 23,253,715 |
| **Liabilities** | | | | | |
| Due to banks | 9,020 | 223,680 | 18,621 | - | 251,321 |
| Due to customers | 12,711,779 | 6,101,400 | 290,823 | 269,619 | 19,373,621 |
| Tax liabilities | 15,052 | - | - | - | 15,052 |
| Borrowings | - | 1,165,543 | - | - | 1,165,543 |
| Other liabilities | 45,824 | 50,651 | 1,614 | 4,421 | 102,510 |
| **Total Liabilities** | 12,781,675 | 7,541,274 | 311,058 | 274,040 | 20,908,047 |
| **Net foreign currency position** | 2,328,565 | 8,382 | 717 | 8,004 | 2,345,668 |
| As at 31 December 2019 | | | | | |
| Total Assets | 13,746,008 | 7,789,928 | 245,628 | 364,526 | 22,146,090 |
| Total Liabilities | 11,953,673 | 7,544,474 | 329,302 | 356,418 | 20,183,867 |
| **Net foreign currency position** | 1,792,335 | 245,454 | (83,674) | 8,108 | 1,962,223 |

The following table shows the sensitivity of the Bank of an increase of the Denar compared to foreign currencies. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or the other equity which appears in case the Denar increases its value compared to the foreign currencies by 1% and/or 5%, When the value of the Denar compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or the other equity is equal but with reverse index as showed in the table below (in Denar thousands).

| *in Denar thousand* | Change in 2020 | Change in 2019 | Profit or loss 2020 | Profit or loss 2019 |
|---|---|---|---|---|
| EUR | 1% | 1% | 84 | 2,455 |
| USD | 5% | 5% | 36 | (4,184) |
| Other currencies | 1% | 1% | 80 | 3,645 |

### 3.4 Operating risk

Operating risk is present in all activities, processes and organizational structures that are part of the business activities of the Bank.

An active management with operational risk requires identification of all operational risks on which the Bank is exposed and taking of adequate measures for their optimization. The Bank's departments and branches in cooperation with the Risk Management Department prepare lists with operational activities on a monthly basis.

All the operational activities are subject to registration in the centralized Register for the operational activities.
The Bank's operations are constantly subject to other risks which are defined as operating risks. These risks relate to deficiencies or errors in the operation of internal processes, systems or to human errors or are due to external events.

### 3.5 Segment reporting

Operating segments

The Bank has two operational segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services and are managed separately based on the Bank's management structure. The Supervisory Board reviews at least monthly the Management report that obtains information regarding the business. The following summary describes the operations in the Bank's reportable segments:

- Corporate Banking (legal entities) – Includes the following: different loans' products for corporate clients, issuing business credit cards, payment operations in the country and abroad for residential and non-residential legal entities, operations on foreign exchange market, inter-banking borrowings, brokerage services, trade with securities issued by the State etc.

- Retail Banking (individuals) – Includes the following activities: different types of loans for individuals, issuing debit and credit cards, payment operations in the country and abroad for residential and non-residential individuals, brokerage services, safe renting, operations on foreign exchange market etc.

Also, the Bank has activities regarding services of POS terminal network and ATMs that were not specified in the above mentioned activities.

## 3.5 Segment reporting

Operating segments (continued)

| *in Denar thousand* | Trading activities | | Retail banking | | Corporate banking | | Payment services and settlement operations | | Non-allocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **Income and expenses** | | | | | | | | | | | | |
| Net interest income /(expenses) | - | - | 859,698 | 787,454 | (1,350) | 3,168 | - | - | (6,501) | - | 851,847 | 790,622 |
| Net fee and commission income | - | - | 46,738 | 47,658 | 12,364 | 14,889 | 120,990 | 103,306 | 8,014 | 1,234 | 188,106 | 167,087 |
| Other operating income | 26,556 | 14,421 | 1,352 | 1,803 | 48,712 | 22,213 | 12,958 | 12,928 | 3,581 | 11,430 | 93,159 | 62,795 |
| Release of imp.prov. /Impairment (losses), net | - | - | (96,267) | (167,550) | (3,842) | (375) | - | - | - | - | (100,109) | (167,925) |
| Depreciation and amortization | (1,274) | (767) | (43,509) | (44,536) | (2,856) | (2,124) | (6,424) | (6,185) | (245) | (674) | (54,308) | (54,287) |
| Impairment losses on non-financial assets, net | - | - | - | (4,842) | (561) | - | - | - | - | - | (561) | (4,842) |
| Investment costs for property and equipment | (989) | (549) | (33,795) | (31,871) | (2,219) | (1,520) | (4,990) | (4,426) | (190) | (482) | (42,183) | (38,849) |
| Other expenses | (11,935) | (7,213) | (407,692) | (418,620) | (26,764) | (19,965) | (60,198) | (58,140) | (2,289) | (6,335) | (508,878) | (510,273) |
| **Profit before tax per segment** | **12,358** | **5,891** | **326,524** | **169,496** | **23,484** | **16,286** | **62,336** | **47,483** | **2,371** | **5,173** | **427,073** | **244,328** |
| Income tax | | | | | | | | | | | (40,123) | (21,465) |
| **Profit for the year** | | | | | | | | | | | **386,950** | **222,863** |
| Total assets per segment | 557,620 | 320,800 | 19,048,401 | 18,617,435 | 1,250,502 | 887,922 | 2,812,582 | 2,585,662 | - | - | 23,669,105 | 22,411,818 |
| Non-allocated assets per segment | - | - | - | - | - | - | - | - | 113,946 | 285,760 | 113,946 | 285,760 |
| **Total assets** | **557,620** | **320,800** | **19,048,401** | **18,617,435** | **1,250,502** | **887,922** | **2,812,582** | **2,585,662** | **113,946** | **285,760** | **23,783,052** | **22,697,578** |
| Total liabilities per segment | 490,467 | 285,382 | 16,754,431 | 16,561,985 | 1,099,906 | 789,891 | 2,473,867 | 2,300,193 | - | - | 20,818,671 | 19,937,451 |
| Non-allocated liabilities per segment | - | - | - | - | - | - | - | - | 95,920 | 250,978 | 95,920 | 250,978 |
| **Total liabilities** | **490,467** | **285,382** | **16,754,431** | **16,561,985** | **1,099,906** | **789,891** | **2,473,867** | **2,300,193** | **95,920** | **250,978** | **20,914,591** | **20,188,429** |

Geographic segments

| *in Denar thousand* | Republic of Macedonia | EU member countries | Other countries | Non-allocated | **Total** |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Total income** | 1,138,672 | 20,097 | (25,657) | - | **1,133,112** |
| **Total assets** | 22,567,125 | 1,205,137 | 10,790 | - | **23,783,052** |
| **2019** | | | | | |
| **Total income** | 1,090,724 | -74,154 | 41 | 3,893 | **1,020,504** |
| **Total assets** | 21,457,330 | 1,208,374 | 27,806 | 4,068 | **22,697,578** |

## 3.6 Fair value estimation

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

*Financial instruments measured at fair value*

The Bank groups assets and liabilities into three levels on the basis of the significance of inputs used in measuring the fair value. The hierarchy according to the fair value is determined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the Statement of financial position are grouped into the fair value hierarchy as follows:

| 31 December 2020 | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Securities available for sale | 13,106 | - | - | 13,106 |

| 31 December 2019 | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Securities available for sale | 13,106 | - | - | 13,106 |

*Financial instruments not measured at fair value*

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented in the Statement of Financial Position at their fair value.

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Net Carrying Amount | Fair Value | Net Carrying Amount | Fair Value |
| **Financial assets** | | | | |
| Cash and cash equivalents | 6,124,494 | 6,124,494 | 5,524,339 | 5,524,339 |
| Loans and advances to banks | - | - | - | - |
| Loans and advances to customers | 16,741,587 | 16,741,587 | 16,379,390 | 16,379,390 |
| Investment securities | 136,805 | 136,805 | 136,388 | 136,388 |
| Other receivables | 220,005 | 220,005 | 79,832 | 79,832 |
| **Financial liabilities** | | | | |
| Due to banks | 251,321 | 251,321 | 644,649 | 644,649 |
| Due to customers | 19,373,621 | 19,373,621 | 18,293,580 | 18,293,580 |
| Borrowings | 1,165,543 | 1,165,543 | 1,125,146 | 1,125,146 |
| Other liabilities | 100,081 | 100,081 | 115,172 | 115,172 |

### Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value, considering that they include cash, bank accounts and bank deposits with short - term maturity.

### Loans and advances to customers

Loans and advances are carried at amortized cost and are net of provisions for impairment. The loans and advances have predominantly floating interest rates and their fair value is determined by discounting of future cash flows using the market interest rate. The fair value approximates their carrying value.

### Investment securities

Investment securities include short term interest bearing assets held to maturity. Their fair value approximates their carrying value.

### Other financial assets

The fair value of other financial assets is considered to approximate their respective carrying values by definition and due to their short-term nature.

### Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest- bearing deposits, is the amount repayable on demand.

The fair value of the term deposits with variable interest rates approximates their carrying values as at the Statement of Financial Position date.

Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

### Other liabilities

Carrying value of other liabilities approximates their fair value with relation to their short-term maturity.

## 3.7 Financial instruments by categories

Net carrying amounts of the financial assets and liabilities of the Bank recognized at the date of the Statement of financial position for the presented periods are classified as follows:

**31 December 2020**
**Financial assets**

| | Assets held to maturity | Loans and receivables | Available for sale assets | Assets at fair value through profit or loss | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | 6,124,494 | - | - | 6,124,494 |
| Loans and advances to banks | - | - | - | - | - |
| Loans and advances to customers | - | 16,741,587 | - | - | 16,741,587 |
| Investment securities | 123,699 | - | 13,106 | - | 136,805 |
| Other receivables | - | 220,005 | 0 | | 220,005 |
| | **123,699** | **23,086,086** | **13,106** | **-** | **23,222,891** |

**Financial liabilities**

| | Other financial liabilities at amortized cost | Total |
|---|---|---|
| Due to banks | 251,321 | 251,321 |
| Due to customers | 19,373,621 | 19,373,621 |
| Borrowings | 1,165,543 | 1,165,543 |
| Other liabilities | 100,081 | 100,081 |
| | **20,890,566** | **20,890,566** |

**31 December 2019**
**Financial assets**

| | Assets held to maturity | Loans and receivables | Available for sale assets | Assets at fair value through profit or loss | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | - | 5,524,339 | - | - | 5,524,339 |
| Loans and advances to banks | - | - | - | - | - |
| Loans and advances to customers | - | 16,379,390 | - | - | 16,379,390 |
| Investment securities | 123,282 | - | 13,106 | - | 136,388 |
| Other receivables | - | 79,832 | - | - | 79,832 |
| | **123,282** | **21,983,561** | **13,106** | **-** | **22,119,949** |

**Financial liabilities**

| | Other financial liabilities at amortized cost | Total |
|---|---|---|
| Due to banks | 644,649 | 644,649 |
| Due to customers | 18,293,580 | 18,293,580 |
| Borrowings | 1,125,146 | 1,125,146 |
| Other liabilities | 115,172 | 115,172 |
| | **20,178,547** | **20,178,547** |

## 3.8 Capital management

Regulatory capital

The Bank's lead regulator NBRM sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by the local regulators.

In implementing capital adequacy requirements, the Bank maintains a prescribed ratio of own funds to sum of total risk-weighted assets. Total risk-weighted assets are sum of credit risk-weighted assets, sum of capital requirements for currency risk and sum of capital requirements for operating risk.

The Bank's own funds are a sum of core capital, supplementary capital, less deductions, as follows:

- Core capital, which includes ordinary and non-cumulative preference shares, share premium, bank reserves allocated from net profit that serve for covering losses arising from risks the Bank faces in its operations, retained earnings not encumbered by any future obligations, stated in the Statement of financial position and confirmed by a Decision of the Bank's Shareholders' Assembly or accumulated loss from previous years, profit for the year if confirmed by the certified auditor, after deductions for loss for the year, licenses, patents, goodwill and other trademarks, treasury shares and the difference between the amount of the required allowance for impairment in accordance with the risk classification and allocated allowance for impairment and allowance for impairment calculated according the Decision for credit risk management.
- Supplementary capital, which includes cumulative preference shares, share premium less the amount of purchased treasury cumulative preference shares, hybrid capital instruments and subordinated liabilities issued by the Bank.
- The total of core capital and supplementary capital is reduced by the Bank's capital investments in banks and financial institutions exceeding 10% of the capital of such institutions, subordinated instruments and other investments in other banks or other financial institutions where the Bank holds more than 10% of the capital and other deductions.

When determining the amount of own funds, the Bank shall observe the following restrictions:

- The amount of the supplementary capital cannot exceed the amount of the core capital.
- The sum of the nominal value of subscribed and paid-in ordinary shares, the share premium of such shares and the amount of reserves and the retained earnings, less the deductions from the core capital and supplementary capital previously described, should exceed the sum of other positions which are part of the Bank's core capital.

The amount of subordinated instruments which are part of the supplementary capital shall not exceed 50% of the amount of core capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Capital management (continued)

The Bank has complied with all externally imposed capital requirements throughout the period. There were no significant changes in the Bank's approach to capital management during the year.

As at 31 December 2020 and 2019 the Bank capital adequacy ratio is in compliance with the prescribed ratio.

### Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory own capital. The process of allocating capital to specific operations and activities is monitored independently of those responsible for the operation, by the Supervisory Board.

## 4 Critical accounting estimates and judgments

The most important areas in need of estimates and judgments include:

### Allowance for impairment for loans and receivables

Assets carried at amortized costs are evaluated for impairment losses as disclosed in Note 2.11.

The Bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the Statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### Allowance for impairment of available-for-sale equity investments

The Bank determines that available for sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investor, industry and sector performance, changes in technology, and operational and financing cash flows.

### Determining fair value

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2.10. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

### Impairment of non-financial assets

Impairment losses are recognized in the amount for which the carrying value of an asset or cash-generating unit exceeds its recoverable amount. In determining the recoverable amount, Management estimates expected prices, cash flows from each cash generating unit and determines the appropriate interest rate for calculating the present value of those cash flows.

## 5 Net interest income

Structure of interest income and expenses according to type of financial instruments

| | 2020 | 2019 |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 1,096,003 | 1,036,719 |
| Investment securities | 22,230 | 26,889 |
| Cash and cash equivalents | 2,514 | 5,576 |
| Loans and advances to banks | 207 | 159 |
| | ***1,120,954*** | ***1,069,343*** |
| **Interest expense** | | |
| Due to customers | 254,229 | 264,411 |
| Borrowings | 10,413 | 8,830 |
| Due to banks | 4,465 | 5,480 |
| | ***269,107*** | ***278,721*** |
| **Net interest income** | **851,847** | **790,622** |

## 6 Net fee and commission income

Structure of fees and commission income and expenses according to type of financial activities

| | 2020 | 2019 |
|---|---|---|
| **Fee and commission income** | | |
| Loans and credit cards | 108,231 | 129,865 |
| Payment operations | | |
| - Domestic | 160,208 | 127,735 |
| - International | 35,614 | 35,034 |
| Visa and MasterCard | 77,992 | 64,533 |
| Letters of credit and guarantees | 20,090 | 18,964 |
| Money transfer | 2,896 | 2,245 |
| Other | 1,265 | 100 |
| | *406,296* | *378,476* |
| **Fee and commission expenses** | | |
| Credit cards | 186,153 | 179,057 |
| Payment operations | | |
| - Domestic | 18,823 | 19,223 |
| - International | 11,955 | 12,496 |
| Other | 1,259 | 613 |
| | *218,190* | *211,389* |
| **Net fee and commission income** | **188,106** | **167,087** |

## 7 Other operating income

| | 2020 | 2019 |
|---|---|---|
| Rent income | 1,687 | 1,663 |
| Gains form equipment sold | 29,786 | 6,904 |
| Dividends received | 1,513 | 1,969 |
| Release of impairment provisions and special reserve, net (Note 24) | - | - |
| Other income from payment operations | 8,809 | 9,055 |
| SWIFT | 2,249 | 2,342 |
| Collected written-off receivables | 8,286 | 8,318 |
| Income from release of impairment provision of non performing interest | - | - |
| Other | 5,965 | 5,069 |
| | **58,295** | **35,320** |

## 8 Additional/ Release of impairment provision on financial assets, net

| | 2020 | 2019 |
|---|---|---|
| (Charge) / recovery for: | | |
| Cash and cash equivalent (Note 13) | 22 | (86) |
| Loans and advances to customers (Note 15) | (90,034) | (160,376) |
| Investment securities (Note 16) | - | (12) |
| Other receivables (Note 21) | (9,576) | (6,766) |
| | **(99,588)** | **(167,240)** |

## 9 Personnel expenses

| | 2020 | 2019 |
|---|---|---|
| Net salaries and contributions | 201,503 | 196,859 |
| Social and health contributions | 98,760 | 100,124 |
| Other employee benefits | 20,157 | 26,267 |
| | **320,420** | **323,250** |

## 10 Other operating expenses

| | 2020 | 2019 |
|---|---|---|
| Materials and services | 101,607 | 102,090 |
| Rent expenses | 33,820 | 38,749 |
| Deposit insurance premiums | 31,689 | 28,303 |
| Impairment losses on foreclosed assets | 561 | 4,842 |
| Administrative and marketing expenses | 31,744 | 31,942 |
| Software license expenses | 13,405 | 13,103 |
| Property and employee insurance premiums | 5,462 | 4,840 |
| Impairment provisions and special reserve, net (Note 25) | - | - |
| Losses from sold foreclosed assets | - | - |
| Litigation expenses | 107 | 311 |
| Losses from sold equipment | - | - |
| Other expenses | 12,807 | 6,534 |
| Other | - | - |
| | **231,202** | **230,714** |

## 11 Income tax expense

| | 2020 | 2019 |
|---|---|---|
| Current income tax expense | 38,661 | 24,856 |
| Deferred income tax (income) / expense | 1,462 | (3,391) |
| | **40,123** | **21,465** |

Reconciliation of the income tax expense as per the Statement of comprehensive income for the years ended 31 December 2020 and 2019is as follows:

| | In % | 2020 | In % | 2019 |
|---|---|---|---|---|
| Profit before taxation | | 427,073 | | 244,328 |
| *Income tax calculated at rate of 10% (2018: 10%)* | *10* | *42,707* | *10* | *24,433* |
| Non-deductible expenses for tax purposes | 0.80 | 3,417 | 0.25 | 607 |
| Tax-exempt income | -1.41 | (6,001) | -1.46 | (3,574) |
| | | **40,123** | | **21,465** |
| **Effective tax rate** | **9.39** | | 8,79 | |

Deferred tax liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Loans and advances to customers | - | - | - | - | - | - |
| Other | - | 3.391 | 1,462 | - | 1.462 | 3.391 |
| | | **3.391** | **1,462** | **-** | **1,462** | **3.391** |

## 11 Income tax expense

Movement of temporary differences during the years is as follows:

| | Loans and advances to customers |
|---|---|
| **At 31 December 2018** | **3,777** |
| Recognized in profit or loss during 2019 | (3.391) |
| **At 31 December 2019** | **386** |
| Recognized in profit or loss during 2020 | 1.462 |
| **At 31 December 2020** | **1,848** |

## 12 Earnings per share

The basic and diluted earnings per share are computed when the net profits for the year (belonging to the common shareholders) is divided with the weighted average number of shares during the year.

| | 2020 | 2019 |
|---|---|---|
| Net-profit attributable to shareholders | 386,950 | 222,863 |
| Net-profit attributable to holders of ordinary shares | 386,950 | 222,863 |
| Issued ordinary shares at 1 January | 545,987 | 545,987 |
| Effect from change of ordinary shares during the year | - | - |
| Weighted average number of shares | 545,987 | 545,987 |
| **Basic and diluted earnings per share (in Denars)** | **709** | **408** |

## 13 Cash and cash equivalents

| | 2020 | 2019 |
|---|---|---|
| Current accounts and deposits with foreign banks | 536,127 | 817,229 |
| Account and balances with the NBRM, except for obligatory foreign currency reserves | 695,502 | 505,690 |
| Placement with banks with maturity up to 3 months | 3,400,014 | 2,132,464 |
| Cash in hand | 294,607 | 259,120 |
| Current accounts and deposits with domestic banks | 103,263 | 37,132 |
| Treasury bills which can be traded on the secondary market | | |
| Treasury bills held to maturity | 467,766 | 1,142,002 |
| Less: provision for impairment | (64) | (86) |
| **Included in cash and cash equivalents for the purpose of the Statement of cash flows** | **5,497,215** | **4,893,551** |
| Obligatory foreign currency reserves | 577,334 | 572,859 |
| Restricted deposits | 49,945 | 57,929 |
| | **6,124,494** | **5,524,339** |

The movement of the impairment provision for cash and cash equivalent is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Movements of provision for impairment** | | |
| Balance at 01 January | 86 | - |
| Charge/ (Release) of provision for impairment, net (Note 16) | **(22)** | **86** |
| **Balance at 31 December** | **64** | **86** |

According to the Decision on obligatory reserve (Official Gazette of the Republic of Macedonia no.87/16, 218/16, 138/17, 198/18 and Official Gazette of the Republic of North Macedonia no. 69/20), the basis for the reserve requirement is determined as an average of the Bank's liabilities for each calendar day of the preceding month. The reserve requirement for banks in Denars shall be calculated as a sum of 8% for liabilities in domestic currency, 50% for liabilities in domestic currency with FX clause and 30% for liabilities in foreign currency.

## 13 Cash and cash equivalents (continued)

In accordance with the new state of emergency with the Covid 19 pandemic in 2020, the NBRNM adopted a Decision to amend the Decision on the reserve requirement. The change refers to the following: Liabilities of banks in domestic currency are reduced by the amount of receivables based on newly approved and restructured loans to nonfinancial companies whose activities have been adversely affected by the pandemic of the covid-19 virus infection. The method of calculation and the percentages of the required reserve remain the same as in 2019.

The bank fulfills the reserve requirement in denars, if the average daily balance of the assets on the bank account with the National Bank and the funds of the Bank on the account for the Reserve Guarantee Fund of the Clearing House AD Skopje, for the period of fulfillment, is at least equal to the calculated reserve requirement. On a daily basis, the bank may fully use the part of the required reserve in denars which is fulfilled through the bank account with the National Bank.

The banks' reserve requirement in foreign currency is set at 70% of the amount calculated as a sum of 15% for liabilities in foreign currency and 13% for liabilities to non-resident financial companies in foreign currency with contractual maturity up to one year). The daily balance of the bank's allocated funds on the foreign currency account of the National Bank abroad is at least equal to 95% of the calculated obligatory reserve in euros.

The average daily balance of the bank's allocated funds on the Euro account in the MIPS, for the fulfillment period, is at least equal to 5% of the calculated obligatory reserve in euros.

The base from the foreign currency liabilities shall be presented in Euros and in Denars, as well, by applying the middle exchange rate of the National Bank valid on the last day of the calendar month.

The reserve requirement maintenance period is from 11th in the current month until 10th in the following month.

The National Bank shall not calculate reserve requirement remuneration in denars.

Remuneration shall be charged on reserve requirement in euro at a rate equal to the interest rate on the ECB's overnight deposit facility applicable as of the last day of the reserve maintenance period. If the average daily outstanding amount of bank's funds allocated to the foreign exchange account in euro in MIPS exceeds 5% of the calculated reserve requirement in euro for the entire reserve maintenance period, remuneration shall be charged on the excess allocated funds at a rate equal to the interest rate on the ECB's overnight deposit facility applicable as of the last day of the reserve maintenance period, less 0.15 percentage points.

As at 31 December 2020, treasury bills issued by the National Bank of the Republic of Macedonia mature within 28 days (2019: 35 days) and bear interest of 1.5% p.a. (2019: 2%), and are classified as held-to-maturity.

## 14 Loans and advances to banks

| | 2020 | 2019 |
|---|---|---|
| Loans and advances to banks at amortized cost | - | - |
| | **-** | **-** |

## 15 Loans and advances to customers

| | 2020 | 2019 |
|---|---|---|
| Loans and advances to customers at amortized cost | 16,741,587 | 16,379,390 |
| | **16,741,587** | 16,379,390 |

The structure of loans and advances to customers by type of debtor is as follows:

| | | 20209 | | 2019 |
|---|---|---|---|---|
| | Short-term | Short-term | Short-term | Short-term |
| Corporate customers | 1,080,942 | 3,838,779 | 1,210,084 | 4,040,031 |
| Public sector | 38 | - | 52 | - |
| Financial institution other than banks | 1,999 | 262,932 | 2,564 | 218,481 |
| Retail customers: | | | | |
| Principal | | | | |
| Housing | 33,206 | 2,320,871 | 7,073 | 2,133,651 |
| Consumer | 385,259 | 6,724,173 | 283,498 | 6,447,383 |
| Vehicle | 319 | 3,297 | 214 | 5,579 |
| Credit cards | 565,756 | - | 579,183 | - |
| Other | 649,751 | 739,204 | 661,699 | 822,297 |
| Nonresident customers | 354,746 | 61,579 | 206,028 | 38,099 |
| Other | 2 | 412 | 2 | 555 |
| | 3,072,017 | 13,951,247 | 2,950,397 | 13,706,076 |
| *Current maturity* | 2,554,536 | -2,554,536 | 2,323,930 | (2,323,930) |
| | 5,626,553 | 11,396,711 | 5,274,327 | 11,382,146 |
| Less: provision for impairment | (218,732) | (62,945) | (208,673) | (68,410) |
| | **5,407,821** | **11,333,766** | **5,065,654** | **11,313,736** |

At 31 December 2020 non-performing loans amounted to 277,173 Denar thousand (2019: Denar 311,304 thousands). Unrecognized interest relating to such loans amounted to Denar 14,439 thousand (2019: Denar 15,179 thousand).

As at 31 December 2020 loans and advances to customers in amount of 853,324 Denar thousand (2019: Denar 851,307 thousand) are mortgaged as collateral for borrowings from MBDP (Note 24).

| | 2020 | 2019 |
|---|---|---|
| **Movements of provision for impairment** | | |
| Balance at 01 January | **277,083** | **154,048** |
| Charge/ (Release) of provision for impairment, net (Note 8) | 90,034 | 160,376 |
| Effect from foreign exchange differences | 196 | (21) |
| Write-off | (85,636) | (37,321) |
| **Balance as at 31 December** | **281,677** | **277,083** |

## 16 Investment securities

| | 2020 | 2019 |
|---|---|---|
| Held-to-maturity investment securities | 123,699 | 123,282 |
| Available-for-sale investment securities | 13,106 | 13,106 |
| | **136,805** | **136,388** |

The movement of the impairment provision for investment securities is as follows:

| | 2020 | 2019 |
|---|---|---|
| **Movements of provision for impairment** | | |
| Balance at 01 January | 12 | - |
| Charge/ (Release) of provision for impairment, net(Note 16) | **-** | **12** |
| **Balance at 31 December** | **12** | **12** |

## 17 Foreclosed assets

| | 2020 | 2019 |
|---|---|---|
| Land | - | - |
| Buildings | 9,661 | 6,871 |
| Equipment | - | - |
| Residential facilities and apartments | 11,272 | - |
| Other | - | - |
| | **20,933** | **6,871** |

As at 31 December 2020, the net carrying value of Bank's foreclosed assets amount to Denar 20,933 thousand (2019: Denar 6,871 thousand). As at 31 December 2020 their fair value less cost to sell is in the amount of Denar 42,946 thousand (2019: Denar 35,136 thousand).

The valuation of foreclosed assets was performed by independent appraisers using Level 2 inputs to market approach. The market approach reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the assets in question, including plot size, location, encumbrances, current use, etc.

## 18 Intangible assets

| | Software | Rights and licenses | Assets under development | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 31 December 2018 / 01 January 2019** | **148,747** | **81,822** | **6,700** | **237,269** |
| Additions during the year | 29,552 | - | 2,178 | 31,730 |
| Transfers | 8,709 | - | (8,709) | - |
| **At 31 December 2019** | **187,008** | **81,822** | **169** | **268,999** |
| Additions during the year | 12,323 | 74 | 4,345 | 16,742 |
| (Disposals and write offs) | (153) | - | - | (153) |
| Transfers | - | - | - | - |
| **At 31 December 2020** | **199,178** | **81,896** | **4,514** | **285,588** |
| **Accumulated amortization** | | | | |
| **At 31 December 2018/01 January 2019** | **101,624** | **53,646** | **-** | **155,270** |
| Amortization for the year | 14,010 | 6,669 | - | 20,679 |
| **At 31 December 2019** | **115,634** | **60,315** | **-** | **175,949** |
| Amortization for the year | 16,575 | 5,777 | - | 22,352 |
| (Disposals and write offs) | (153) | - | - | (153) |
| **At 31 December 2020** | **132,056** | **66,092** | **-** | **198,148** |
| **Net carrying value** | | | | |
| At 31 December 2018 | **47,123** | **28,176** | **6,700** | **81,999** |
| **At 31 December 2019** | 71,374 | 21,507 | 169 | 93,050 |
| **At 31 December 2020** | **67,122** | **15,804** | **4,514** | **87,440** |

At 31 December 2020 and 2019, all intangible assets are owned by the Bank. The Bank has no encumbrances over its intangible assets.

## 19 Property and equipment

| | Buildings | Equipment | Construction in progress | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 31 December 2018/01 January 2019** | **507,802** | **422,393** | **397** | **930,592** |
| Additions during the year | 290 | 3,861 | 1,652 | 5,803 |
| (Disposals and write offs) | - | (4,914) | - | (4,914) |
| Transfer | 23,829 | 1,012 | (1,301) | 23,540 |
| **At 31 December 2019** | **531,921** | **422,352** | **748** | **955,021** |
| Additions during the year | 86 | 11,722 | - | 11,808 |
| (Disposals and write offs) | (15,549) | (2,053) | - | (17,602) |
| Transfers | - | 351 | (351) | - |
| **At 31 December 2020** | **516,458** | **432,372** | **397** | **949,227** |
| | | | | |
| **Accumulated depreciation** | | | | |
| **At 31 December 2018/01 January 2019** | **118,329** | **354,697** | **-** | **473,026** |
| Depreciation for the year | 12,848 | 20,760 | - | 33,608 |
| (Disposals and write offs) | - | (3,180) | - | (3,180) |
| **At 31 December 2019** | **131,177** | **372,277** | **-** | **503,454** |
| Depreciation for the year | 13,235 | 18,721 | - | 31,956 |
| (Disposals and write offs) | (5120) | (2,027) | - | (7,147) |
| **At 31 December 2020** | **139,292** | **388,971** | **-** | **528,263** |
| | | | | |
| **Net carrying value** | | | | |
| At 31 December 2018 | **389,473** | **67,696** | **397** | **457,566** |
| **At 31 December 2019** | **400,744** | **50,075** | **748** | **451,567** |
| **At 31 December 2020** | **377,166** | **43,401** | **397** | **420,964** |

At 31 December 2020 and 2019, all property and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its property, plant and equipment. As at 31 December 2020 the Bank leases under operating lease terms building with net carrying amount of Denar 5,925 thousand (2019: Denar 6,155 thousand). The leases are cancellable and typically run for a shorter period.

## 20 Other receivables

| | 2020 | 2019 |
|---|---|---|
| Fee and commission receivables | 19,538 | 17,636 |
| Prepaid expenses | 18,552 | 16,164 |
| Credit card receivables | 39,240 | 47,080 |
| Receivables for court cases | 4,866 | 4,103 |
| Advances for intangible assets | 1,888 | 5,403 |
| Advances for property and equipment | 7,575 | 71 |
| Inventories | 2,370 | 4,140 |
| Other receivables from litigations | - | - |
| Receivables from leased assets | - | - |
| Money transfer | 1,875 | 1,335 |
| Trade receivables | 1,237 | 6 |
| Employee receivables | 81 | 115 |
| Other | 164,602 | 17,790 |
| | **261,824** | **113,843** |
| Less: provision for impairment | (10,995) | (7,870) |
| | **250,829** | **105,973** |

## 20 Other receivables

| | 2020 | 2019 |
|---|---|---|
| **Movements of provision for impairment** | | |
| Balance at 01 January | 7,870 | 10,459 |
| Additional provision for impairment / (Release) of provision for impairment, net (Note 8) | 9,653 | 6,766 |
| Foreclosed assets from non-collectable receivables | (77) | - |
| Effect from foreign exchange differences | - | - |
| Write-off | (6,451) | (9,355) |
| **Balance at 31 December** | **10,995** | **7,870** |

A part of the prepaid expenses in the amount of Denar 795 thousand in 2019 relate to the lease of the business premises for the Bank's branches in Strumica. The total rent according the lease agreement was paid in advance in 2000, covering lease period of 20 years.

## 21 Due to banks

| | | 2020 | | 2019 |
|---|---|---|---|---|
| | Short-term | Long-term | Short-term | Long-term |
| Current accounts of domestic banks | 28,629 | - | 21,800 | - |
| Current accounts of foreign banks | 30,015 | - | 32,712 | - |
| Term deposits of domestic banks | - | - | - | - |
| Term deposits of foreign banks | 99,386 | 92,541 | 66,759 | 522,628 |
| Restricted deposits of domestic banks | 750 | - | 750 | - |
| Other deposits | - | - | - | - |
| Current maturity | 92,541 | (92,541) | 522,628 | (522,628) |
| | **251,321** | **-** | **644,649** | **-** |

## 22 Due to customers

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Short-term | Long-term | Short-term | Long-term |
| *Non-financial institutions* | | | | |
| Current accounts | 1,931,917 | - | 1,970,384 | - |
| Term deposits | 1,254,116 | 225,332 | 931,543 | 410,592 |
| Restricted deposits | 11,791 | 108,637 | 39,066 | 124,482 |
| Other deposits | 37,799 | - | 34,829 | - |
| | **3,235,623** | **333,969** | **2,975,822** | **535,074** |
| *State* | | | | |
| Current accounts | 4,207 | - | 2,490 | - |
| Demand deposits | - | - | - | - |
| Term deposits | - | - | - | - |
| Other deposits | 75 | | | |
| | **4,282** | **-** | **2,490** | **-** |
| *Not-for-profit institutions* | | | | |
| Current accounts | 125,127 | - | 101,428 | - |
| Term deposits | 7,268 | 5,052 | 2,729 | 5,325 |
| Restricted deposits | - | 16 | - | 16 |
| Other deposits | 788 | - | 805 | - |
| | **133,183** | **5,068** | **104,962** | **5,341** |
| *Financial institutions, other than banks* | | | | |
| Current accounts | 95,520 | - | 44,621 | - |
| Term deposits | 654,236 | 1,527,088 | 580,907 | 1,403,985 |
| Restricted deposits | 5,552 | 19,742 | 5,534 | 15,371 |
| Other deposits | 26 | - | 32 | - |
| | **755,334** | **1,546,830** | **631,094** | **1,419,356** |
| *Citizens* | | | | |
| Current accounts | 3,320,690 | - | 2,964,316 | - |
| Demand deposits | 1,650,178 | - | 845,131 | - |
| Term deposits | 2,625,548 | 4,996,963 | 2,979,870 | 5,024,279 |
| Restricted deposits | 40,765 | 198,159 | 29,769 | 225,086 |
| Other deposits | 22,555 | - | 19,834 | - |
| | **7,659,736** | **5,195,122** | **6,838,920** | **5,249,366** |
| *Nonresidents* | | | | |
| Current accounts | 452,211 | - | 464,525 | - |
| Term deposits | 4,903 | 25,650 | 19,048 | 26,191 |
| Restricted deposits | - | 5,927 | - | 5,586 |
| Other deposits | 15,783 | - | 15,806 | - |
| | **472,897** | **31,577** | **499,379** | **31,777** |
| *Current maturity* | 3,393,528 | (3,393,528) | *2,331,839* | *(2,331,839)* |
| | **15,654,583** | **3,719,038** | **13,384,506** | **4,909,075** |

## 23 Borrowings

Structure of borrowings by type of borrowing and creditor's sector

| | 2020 Short-term | 2020 Long-term | 2019 Short-term | 2019 Long-term |
|---|---|---|---|---|
| Banks | 57,814 | 1,098,269 | 97,082 | 1,021,361 |
| State | 2,770 | 6,690 | 2,755 | 3,948 |
| Current maturity | 271,401 | (271,401) | 251,488 | (251,488) |
| | **331,985** | **833,558** | **351,325** | **773,821** |

### Borrowings by creditors

Borrowings by creditors

| | 2020 Short-term | 2020 Long-term | 2019 Short-term | 2019 Long-term |
|---|---|---|---|---|
| *Domestic sources:* | | | | |
| Macedonian Bank for Development Promotion in foreign currency | 57,814 | 1,098,269 | 97,082 | 1,021,361 |
| Macedonian Bank for Development Promotion in domestic currency | - | - | - | - |
| Ministry of Finance of RM | 2,770 | 6,690 | 2,755 | 3,948 |
| | **60,584** | **1,104,959** | **99,837** | **1,025,309** |
| Current maturity | 271,401 | (271,401) | 251,488 | (251,488) |
| | **331,985** | **833,558** | **351,325** | **773,821** |

As at 31 December 2020, the Bank has outstanding liabilities on credit lines from the Development Bank of the Republic of North Macedonia in amount of Denar 1,156,083 thousand (2019: Denar 1,118,443 thousand). During 2020, based on already signed agreements, the Bank withdrew funds from different credit lines with a repayment period until 2031 and interest rates of 1% (variable interest rates) up to 1.2% (fixed interest rates) per year for foreign currency loans. As collateral for these obligations the Bank has issued bills of exchange with promissory notes and pledge of its claims and rights acquired from the beneficiary in favor of the Development Bank of the Republic of North Macedonia.

As of December 31, 2020, the Bank has liabilities in Denar loans with fx clause to the Ministry of Finance of RNM - Agricultural credit discount fund in amount of Denar 9,460 thousand (2019: Denar 6,703 thousand). During 2020, based on already signed agreements, the Bank made withdrawals of funds at 0.5% (fixed interest rates) per year for Denar loans with fx clause with repayment period until 30.09.2029.

## 24 Provision and special reserve

| | Commitments and contingencies |
|---|---|
| Balance at 01 January 2019 | 3,490 |
| Additional provision for impairment, net (Note 10) | 684 |
| Foreign exchange gain | 1 |
| **Balance at 31 December 2019 (Note 25)** | **4,175** |
| | |
| Balance at 01 January 20120 | 4,175 |
| (Release) provision for impairment, net (Note 7) | 522 |
| Foreign exchange gain | (1) |
| **Balance at 31 December 2020** | **4,696** |

## 25 Other liabilities

| | 2020 | 2019 |
|---|---|---|
| Non allocated inflows | 340 | 195 |
| Trade payables | 41,037 | 21,994 |
| Fee and commission | 9,513 | 7,825 |
| Other taxes and contributions | 13,342 | 10,212 |
| Accrued expenses | 879 | 1,064 |
| Payments for initial investment | 1,231 | 1,538 |
| Subscriptions | 17,549 | 59,017 |
| Other | 18,619 | 16,346 |
| | **102,510** | **118,191** |

## 26 Share capital

At 31 December 2020 the authorized share capital comprised ordinary shares 545,987 (2019: 545,987). Ordinary shares have a par value of MKD 1,000 (2019: MKD 1,000). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank. (2019: one vote per share). All shares rank equally with regard to the Bank's residual assets.

| | *In Denars* Nominal value per share | | *Number of issued shares* | | | | Total subscribed capital | |
|---|---|---|---|---|---|---|---|---|
| | | | ordinary shares | | preference shares | | | |
| | ordinary shares | preference shares not for sale | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| At 1 January – fully paid | 1,000 | 1,000 | 545,987 | 545,987 | - | - | 545,987 | 545,987 |
| Changes during the year (conversion from preference to ordinary shares) | - | - | - | - | - | - | - | - |
| **At 31 December – fully paid** | **1,000** | **1,000** | **545,987** | **545,987** | **-** | **-** | **545,987** | **545,987** |

At 31 December 2020 and 2019, the following shareholders have ownership exceeding 5% of the total issued shares with a voting right:

| | Share capital in Denar thousand | | Voting right | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Ivaylo Moutaftchiev, Republic of Bulgaria | 198,994 | 198,994 | 36.45 | 36.45 |
| Tzeko Minev, Republic of Bulgaria | 198,994 | 198,994 | 36.45 | 36.45 |
| | **397,988** | **397,988** | **72.90** | **72.90** |

## 27 Commitments and contingencies

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category:

| | 2020 | 2019 |
|---|---|---|
| Guarantees | | |
| in MKD | 593,328 | 673,309 |
| in foreign currency | 91,773 | 98,661 |
| Letters of credit in foreign currency | 18,312 | 7,023 |
| Unused overdrafts on current accounts | 874,492 | 732,866 |
| Unused credit limits non- cancellable | 338,665 | 353,675 |
| | **1,916,570** | **1,865,534** |
| Provision for impairment (Note 24) | (4,696) | (4,175) |
| | **1,911,874** | **1,861,359** |

### Litigations

At 31 December 2020, legal proceedings raised against the Bank amount in total Denar 3,337 thousand (2019: Denar 20 thousand). As at the Statement of financial position date, the Bank did not recognize provision, since professional legal advice show that there is no possibility of significant losses. In addition, various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Bank believes that no material liabilities are likely to result.

### Taxation

The tax authorities may at any time inspect the books and records up to 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

### Capital commitments

As at the Statement of financial position date, there are no capital commitments that have not been recognized in the financial reports.

## 28 Fiduciary activities

The Bank manages assets for the benefit of third parties mainly intended for concluding loan agreements with legal entities. These assets are not owned by the Bank and have not been recognized in the Statement of financial position. The Bank is not exposed to credit risk from these placements. As at 31 December 2020, these assets amount to Denar 518,314 thousand (2019: Denar 518,339 thousand).

## 29 Pension plans

The Bank does not operate any defined contribution plans or share-based remuneration options as at 31 December 2020 and 2019. The management believes that the present value of the future obligations to employees with respect to retirement and other benefits and awards are not material to these financial statements as at 31 December 2020 and 2019.

## 30 Related party transactions

According to the Banking Law, related parties are considered: persons with special rights and responsibilities in the Bank and persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares, or voting right shares), affiliates and entities under common ownership, control and management with the Bank, or whose activities the Bank has an ability to control.

The Bank grants loans, performs payment transfers and deposits funds of related enterprises and financial institutions. It is the opinion of the Bank's management that these transactions are carried out on normal commercial terms and conditions and during the regular course of business activities.

As at 31 December 2020 and 2019, the balances and volume of transactions with related entities and Key management personnel are as follows:

| | Other related parties | | Key management personnel | | Total | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **Assets** | | | | | | |
| Current accounts | 27,238 | 45,977 | - | - | 27,238 | 45,977 |
| Other assets | 2,054 | 2,095 | 227 | 278 | 2,281 | 2,374 |
| Loans and other receivables | 61,669 | 1,845 | 35,550 | 47,096 | 97,219 | 172,223 |
| Investment securities | 123,699 | 123,282 | - | | 123,669 | |
| | **214,660** | **173,199** | **35,777** | **47,374** | **250,437** | **220,573** |
| **Liabilities** | | | | | | |
| Deposits | 437,158 | 730,444 | 123,977 | 102,491 | 561,135 | 832,935 |
| Subordinated liabilities | - | - | - | - | - | - |
| Other liabilities | 6,532 | 5,593 | 2 | - | 6,534 | 5,593 |
| | **443,690** | **736,037** | **123,979** | **102,491** | **567,669** | **838,528** |
| **Income** | | | | | | |
| Interest income | 12,177 | 373 | 1,441 | 1,078 | 13,618 | 1,451 |
| Fee and commission income | 1,062 | 1,003 | 141 | 136 | 1,203 | 1,139 |
| Other income | 567 | 715 | 31 | 78 | 598 | 793 |
| | **13,806** | **2,091** | **1,613** | **1,292** | **15,419** | **3,383** |
| **Expenses** | | | | | | |
| Interest expenses | 4,416 | 5,505 | 2,091 | 1,942 | 6,507 | 7,447 |
| Fee and commission expenses | 64,159 | 55,492 | - | - | 64,159 | 55,492 |
| Other expenses | 24,864 | 25,700 | 3,085 | 23,653 | 27,949 | 49,353 |
| Short term benefits | - | - | 94,571 | 92,501 | 94,571 | 92,501 |
| | **93,439** | **86,697** | **99,747** | **118,096** | **193,186** | **204,793** |

## 31 Events after the reporting period

After December 31, 2020 - the reporting date, until the date of approval of these financial statements, there are no events that would cause a correction in the financial statements, nor events that are materially significant for publication in those financial statements reports.

The uncertainty and the risks posed by the health crisis on the economy are still present and in such conditions, for the time being, the attention of The Bank's management is focused on reducing the possible negative effects. The bank on a regular annual basis makes a Business Plan for the next year and tries to include in the projection all the factors that will affect its performance, as well as the level of all risks to which it will be exposed. As for the liquidity risk, the Bank constantly diversifies its financial sources by raising funds through attractive deposit products; long-term financing by issuing securities; providing credit / liquid lines. Additionally, the Bank has at its disposal a credit line, which if needed to be used for the realization of the planned activities would have an impact on the increase in the level of liquidity of ~ 2pp. As regards the solvency, the Bank in the next period through capitalization of the profit realized for 2020 will increase its CAR for ~ 2.28 pp so that the level of CAR will be high above the minimum set by the NBRNM.