

Item on the agenda:5 Proposer: **Supervisory Board** 

# Material for the Annual Shareholders Assembly of NLB Banka AD Skopje

Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024

The Supervisory Board proposes to the Shareholders Assembly to adopt the following:

# Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024

In addition:

- Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024
- Proposal-Decision on the adoption of the Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024 with the Opinion of the Supervisory Board regarding the Report

Skopje, May 2025

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Financial statements prepared in accordance with International Financial Reporting Standards For the year ended 31 December 2024

With Report of the Auditors thereon

Independent Auditors' Report



KPMG AUDIT DOO Skopje 3 Filip Vtori Makedonski Street Skopje 1000, Republic of North Macedonia +389 (2) 3135 220 mk-office@kpmg.com kpmg.com/mk

#### Independent auditors' report to the shareholders of NLB Banka AD Skopje

We have audited the accompanying financial statements of NLB Banka AD Skopje ("the Bank"), as shown on pages 1 to 135, which comprise the statement of financial position as at 31 December 2024, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the Financial Statements

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

#### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

KPMG AUDIT DOO Skopje, a limited liability company registered in the Republic of North Macedonia and a member firms of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

Registered with the Trade Register of the Republic of North Macedonia with EMBS: 5078598 Tax No. MK4030996107859



Independent Auditors' report NLB Banka AD Skopje

#### Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Skopje, 2 April 2025

Certified auditor Srdjan Randjelovic

**KPMG** Audit DOO Managing Director Srdjan Rancjelovic<sup>3 a</sup> КПМІ РЕВИЗИЈА A00 0

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Material for 144<sup>th</sup> meeting of the Supervisory Board of NLB Banka AD Skopje

Agenda number.: 2025-144VS T2.5

Date of the Meeting: 20.03.2025

Proposer: Management Board

# Report for the results of the audit performed by Audit Company KPMG Revizija DOO Skopje for the audit of the Financial Statements of NLB Banka AD Skopje for the year ended 31 December 2024 with Opinion on the report by the Audit Company

The Audit Company KPMG Revizija DOO Skopje during the first two months of 2025 audited the Financial Statements of NLB Banka AD Skopje prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2024, which include: Income Statement, Statement of other comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows, Review of significant accounting policies and other explanatory notes.

The audit of the financial statements has been planned and performed in accordance with the International Standards for Audit adopted and published in the Official Gazette of the Republic of Macedonia No.79 from 11 June 2010 and the Code of Ethics, which the auditors are obliged to respect.

In performing audit, the auditors in accordance with the estimated risk of material misstatement of the financial statements, included appropriate procedures for obtaining audit proof for the amounts and disclosures in the financial statements.

The Audit Company reviewed the internal control in all segments of operations and process of accounting records, recognition and evaluation of the positions of the Statement of financial position and Income Statement.

Due to the successful and effective perform of the audit of the financial statements ended on 31 December 2024, the KPMG Revizija DOO Skopje started the pre-audit during the fourth quarter of 2024, as of 30.9.2024.

Management is responsible for preparing and fair presenting of the financial statements in accordance with the International Financial Reporting Standards.

We accept with pleasure the Draft opinions of the Audit Company KPMG Revizija DOO Skopje, which states:

"In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards".

Hedvika Usenik President of the Supervisory Board

Audited Financial Statements

# Financial statements in accordance with IFRS for the year ended 31 December 2024 (All amounts in MKD thousands unless otherwise stated)

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**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

#### **Income statement**

	Notes	2024	2023
Interest income calculated using the effective interest method	4	5,314,221	4,508,131
Interest expense calculated using the effective interest method		(605,116)	(483,255)
Other interest and similar expense		(2,150)	(2,072)
Interest and similar expense	4	(607,266)	(485,327)
Net interest income		4,706,955	4,022,804
Dividend income	5	393	2,765
Fee and commission income	6	2,405,485	2,355,394
Fee and commission expense	6	(1,080,386)	(1,234,110)
Net fee and commission income		1,325,099	1,121,284
Net gains/(losses) on financial instruments held for trading	7	354,357	331,557
Net gains/(losses) from financial liabilities measured at fair value	,	004,007	001,007
through profit or loss	8	(15,636)	(6,622)
Net foreign exchange gain/(loss)	9	(10,199)	20,253
Net gains/(losses) on derecognition of assets	10	5,064	(28,575)
Other operating income	11	113,349	84,113
Other operating expenses	12	(207,150)	(221,048)
Personnel expenses	13	(1,278,183)	(1,190,892)
General and administrative expenses	14	(811,921)	(716,822)
Depreciation and amortisation expense	15	(328,598)	(332,054)
Gains less losses from modification	16	-	(14)
Provisions for credit losses	17	135,267	(45,837)
Provisions for other liabilities and charges	17	-	23,707
Impairment of financial assets	18	790,975	(7,765)
Impairment of non-financial assets	18	3,674	(16,934)
Share of profit/(loss) from investments in associates (accounted for	29	(21,053)	(17,743)
using the equity method) Profit before income tax		4,762,393	3,022,177
Income tax expense	19	(608,613)	(301,986)
Profit for the year		4,153,780	2,720,191

Basic and diluted earnings per share (in MKD)

46

3,185

These financial statements have been approved by the Management board on 13.03.2025 and signed on its behalf by:

Katerina Jankovikj Member of the Management board

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Igor Davchevski Member of the Management board

Peter Zelen. Member of the

Management board

NLB Toni Stojanovski President of the Management board

4,864

The notes are an integral part of these financial statements

Financial statements in accordance with IFRS for the year ended 31 December 2024 (All amounts in MKD thousands unless otherwise stated)

#### Statement of comprehensive income

	Notes	2024	2023
Net profit for the year		4,153,780	2,720,191
Other comprehensive income to be			
reclassified to income statement in			
subsequent periods:			
- debt instrument measured at fair value	45	77 201	197,266
through other comprehensive income	45	77,301	197,200
Other comprehensive income that will			
not be reclassified to income statement			
in subsequent periods:			
<ul> <li>fair value changes of equity instruments</li> </ul>			
measured at fair value through other		26,456	16,650
comprehensive income	45		
- actuarial gains/(losses)	45	(1,295)	(1,171)
Other comprehensive income/(loss) for			
the year, net of tax		102,462	212,745
Total comprehensive income for the			
year		4,256,242	2,932,936

These financial statements have been approved by the Management board on 13.03.2025 and signed on its behalf by:

Katerina Jankovikj Igor Davchevski

Peter Zelen Member of the Management board

ALE Toni Stojanovski

President of the Management board

Member of the Management board

Member of the Management board

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# Statement of financial position

	Notes	31.12.2024	31.12.2023
Assets			
Cash, cash balances at central bank and demand deposits at banks	20	19,417,311	16,737,430
Financial assets measured at fair value through other comprehensive income	21	4,455,443	4,393,926
Financial assets measured at amortised cost	22		
- debt securities	23	17,734,485	13,021,336
- loans and advances to banks	24	2,271,520	3,980,536
- loans and advances to customers	25	85,858,235	74,930,456
- other financial assets	26	700,764	1,683,423
Foreclosed collateral	28	56,435	52,092
Investment in associates (accounted for using the equity method)	29	45,168	45,621
Investment property	30	91,851	91,851
Property, equipment and right-of-use assets	31	2,017,454	1,942,483
Intangible assets	32	171,352	226,498
Other assets	34	88,675	74,272
Total assets		132,908,693	117,179,924
Liabilities			
Financial liabilities measured at fair value through profit or loss	35	51,420	28,977
Financial liabilities measured at amortised cost	36		
- deposits from banks	37	391,309	395,293
- deposits from customers	38	106,780,501	92,386,176
- other borrowed funds	39	2,268,266	2,757,407
- subordinated liabilities	40	1,534,426	2,088,605
- other financial liabilities	41	1,261,941	1,568,064
Provisions	42	239,196	392,578
Income tax liabilities	19	203,199	99,670
Deferred income tax liabilities	19	148,414	53,733
Other liabilities	43	182,058	179,193
Total liabilities		113,060,730	99,949,696
Equity			
Capital and reserves attributable to equity holders			
Share capital	45	854,061	854,061
Share premium	45	2,274,484	2,274,484
Other equity instruments	45	614,950	-
Revaluation reserve	45	80,660	(21,802)
Retained earnings		6,732,857	5,567,088
Other reserves		9,290,951	8,556,397
Total equity		19,847,963	17,230,228
Total liabilities and equity		132,908,693	117,179,924

These financial statements have been approved by the Management board on 13.03.2025 and signed on its behalf by:

Katerina Jankovikj Member of the Management board

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Igor Davchevski Member of the Management board

Peter Zelen Member of the Management board

NLB toni Stojanovski President of the Management board

The notes are an integral part of these financial statements

Financial statements in accordance with IFRS for the year ended 31 December 2024 (All amounts in MKD thousands unless otherwise stated)

# Statement of changes in equity

	Share capital	Share premium	Other equity instruments	Revaluation reserve	Retained earnings	Other reserves	Total equity
Balance as at 1 January 2023	854,061	2,274,484	-	(234,547)	5,843,222	7,636,323	16,373,543
Net profit for the year	-	-	-	-	2,720,191	-	2,720,191
Other comprehensive income	-	-	-	212,745	-	-	212,745
Total comprehensive income	•	-	•	212,745	2,720,191	-	2,932,936
Dividends	-	-	-	-	(2,076,251)	-	(2,076,251)
Transfer to statutory reserve	-	-	-	-	(920,074)	920,074	-
Other	-	-	-	-	- 1	-	-
Balance as at 31 December 2023	854,061	2,274,484	•	(21,802)	5,567,088	8,556,397	17,230,228
Balance as at 1 January 2024	854,061	2,274,484	-	(21,802)	5,567,088	8,556,397	17,230,228
Net profit for the year	-	-		-	4,153,780	-	4,153,780
Other comprehensive income	-	-	-	102,462	-	-	102,462
Total comprehensive income	-	-	-	102,462	4,153,780	-	4,256,242
Dividends	-	-	-	-	(2,251,305)	-	(2,251,305)
Transfer to statutory reserve	-	-	-	-	(734,554)	734,554	-
Other	-	-	614,950	-	(2,152)	-	612,798
Balance as at 31 December 2024	854,061	2,274,484	614,950	80,660	6,732,857	9,290,951	19,847,963

Detailed information is provided in note 45.

These financial statements have been approved by the Management board on 13.03.2025 and signed

on its behalf by:

Katerina Jankovikj Member of the Management board

Igor Davchevski Member of the Management board

Peter Zelen Member of the Management board

NIS Toni Stojanovski

President of the Management board

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# Statement of cash flows

	2024	2023
Cash flows from operating activities		
Interest received	5,011,119	4,473,364
Interest paid	(40,541)	(388,410)
Dividends received	393	2,765
Fee and commission receipts	2,413,923	2,378,268
Fee and commission payments	(1,080,386)	(1,234,110)
Net gain/(losses) from financial assets and financial liabilities held for trading	360,435	332,501
Payments to employees and suppliers	(2,114,954)	(1,893,429)
Receipts from operating income	73,400	84,533
Payments for operating expenses	(203,223)	(223,318)
Cash flow from operating activities before changes in operating assets and liabilities	4,420,166	3,532,164
(Increase) / decrease in operating assets	(8,978,274)	(224,632)
Net (increase)/decrease in fin.assets held for trading	(10,223)	-
Net (increase )/decrease in fin.assets measured at fair value through other comprehensive income	35,426	1,245,167
Net (increase)/decrease in loans and receivables	(10,012,265)	(2,891,997)
Net (increase)/decrease in other financial assets	1,004,451	1,265,197
Net (increase)/decrease in other assets	4,337	157,001
Increase/(decrease) in operating liabilities	13,130,976	3,076,706
Net increase/(decrease) of financial liabilities HFT	(2,877)	(2,051)
Net increase/(decrease) in liabilities measured at amortised cost	13,514,047	3,010,676
Net increase/(decrease) in other financial liabilities	(382,985)	67,001
Net increase/(decrease) in other liabilities	2,791	1,080
Cash flows from operating activities	8,572,868	6,384,238
Income taxes (paid)	(410,403)	(267,115)
Net cash flow from operating activities	8,162,465	6,117,123
Cash flows from investing activities		0.000 504
Receipts from investing activities	22,364,912	8,986,584
Receipts from sale of tangible assets and investment properties	7,187	1,057
Receipts from derecognition of debt instruments measured at amortised cost	22,357,725	8,985,527
Cash payments on investing activities	(27,381,156)	(10,732,026)
Cash payments to acquire tangible assets and investment properties	(165,417)	(92,911)
o to state to construct internetible construction	(43 117)	(39,396)

Cash payments to acquire intangible assets(43,117)(39,396)Cash payments to acquire debt instruments measured at amortised<br/>cost(27,152,021)(10,599,719)Other cash payments related to investing activities(20,601)-Net cash from investing activities(5,016,244)(1,745,442)

AM. In Day

# Statement of cash flows (continued)

	2024	2023
Cash flows from financing activities		
Cash proceeds from financing activities	1,153,538	(751,452)
Cash proceeds from subordinated liab.issued	615,369	(676,445)
Payments of lease liabilities	(76,781)	(75,007)
Other cash payments related to financial activities	614,950	-
Cash payments on financing activities	(3,415,066)	(2,069,970)
Dividends paid	(2,244,132)	(2,069,970)
Cash repayments of subordinated liabilities	(1,168,782)	-
Other cash payments related to financial activities	(2,152)	-
Net cash flow from financing activities	(2,261,528)	(2,821,422)
Effects of exchange rate changes on cash and cash equivalents	69,661	30,326
Net increase/(decrease) in cash and cash equivalents	954,354	1,580,585
Cash and cash equivalents at beginning of the year	22,313,746	20,733,161
Cash and cash equivalents at end of the year	23,268,100	22,313,746

These financial statements have been approved by the Management board on 13.03.2025 and signed on its behalf by:

Katerina Jankovikj Member of the Management board

gor Davchevski

Member of the Management board

Peter Zelen Member of the Management board

NEB Toni Stojanovski President of the Management board

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# Cash and cash equivalents

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

	Note	2024	2023
Cash, cash balances at central bank and demand deposits at banks	20	19,417,311	16,743,505
Financial assets measured at fair value through other comprehensive income	21	1,591,200	1,603,267
Loans and advances to banks with original maturity up to 3 months	24	2,259,590	3,966,974
Total		23,268,100	22,313,746

# 1. General information

#### 1.1 Introduction

NLB Banka AD Skopje (hereinafter: "the Bank") is a joint-stock company incorporated and domiciled in the Republic of North Macedonia (hereinafter: "RNM"). The Bank is a subsidiary of Nova Ljubljanska banka d.d. Ljubljana (hereinafter: "NLB d.d."), which controls 86.97% (2023: 86.97%) of the voting shares of the Bank.

As of 31 December 2024, the largest shareholder of NLB d.d. with significant influence is the Republic of Slovenia, owning 25% plus one share (31 December 2023: 25% plus one share).

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

The Bank has an investment in the associated company NLB Lease&Go DOO Skopje. The Bank participates in the company's share capital with a monetary contribution corresponding to a 49% stake in the Company. NLB Lease&Go DOO Skopje is incorporated and domiciled in the RNM and represents an investment in a related entity. The accounting treatment and presentation of the investment in the associated company in the Bank's financial statements is according to the equity method.

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

St. Vodnjanska 1, Skopje, Municipality Centar 1000 Skopje, Republic of North Macedonia

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

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

These financial statements have been approved for issue by the Supervisory Board on 20 March 2025.

# 1. General information (continued)

# 1.1 Introduction (continued)

# Managers

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

President of the Management Board (from 3rd September 2024) Assistant of the Management Board (from 1st July till 2nd September 2024)	Toni Stojanovski
Member of Management Board	Peter Zelen
Member of Management Board	lgor Davchevski
President of the Management Board (till 2nd September 2024; Assistant of the Management Board (till 31st December 2024)	Branko Greganovikj
Assistant of the Management Board (from 1st September 2024)	Katerina Jankovikj
Assistant of the Management Board (till 31th August 2024)	Goce Vangelovski
Assistant of the Management Board (till 31th March 2024)	Ljupka Gjorgievska
Assistant of the Management Board (till 30 April 2024)	Zoran Grncharovski
Manager of Financial Management Division	Donka Markovska
Manager of Financial Market and Treasury Division	Ljubica Janchevska Dimitrovska
Manager of Cash Services and Depot Division	Dragi Josivoski
Manager of Internal Audit Division	Anita Boshkova
Manager of Sales Logistics Division (from 23th January 2024)	Slagjana Beleva
Manager of Sales Logistics Division (from 1st March 2024)	Frosina Atanasovska
Manager of Compliance and Integrity Center	Mateja Papez
Manager of the Sales Network Division (from 1th June 2024)	Marjan Kochovski
Manager of Corporate Sales Support Division	Biljana Stepanuleska Pocevska
Manager of Corporate Clients Division	Petar Trpeski
Manager of Risk, Evaluation and Control Division	Sanja Churilov
Manager of Credit Risk Division	Ana Narashanova
Manager of Legal and Secretariat Division	Violeta Janeva
Manager of Bank's Logistic Division	Igor Kacarski
Manager of Payment System Division	Vesna Kitanova
Manager of Human Resources Division (from 1st October 2024)	Dejan Madzoski
Manager of Human Resources Division (till 16th September 2024)	Ivan Krstikj
Manager of the IT Infrastructure and Security Center (from 1st of August 2024)	Dejan Atanasov
Advisor to the Management Board and temporarily assigned authority to manage the Restructuring and Workout Division until the appointment of the Director of Restructuring and Workout Division	Lucija Muršec Jež
Head of Strategic marketing, CRM and Communication Department and temporarily granted authority to manage an Offer Development and Marketing Division (from 1st of April 2024 – till 16 January 2025)	Ana Jancevska Jordanovska
Assistant Manager of Information Technology Division and temporarily granted authority to manage Information Technology Division (from 25st March 2024 – till 31 December 2024)	Verica Zarinska

# 1. General information (continued)

# 1.2 Operating environment of the Bank

In 2024, the bank operated in conditions of slow growth of the domestic economy, accompanied by reduced inflation, weak gains in industrial production and foreign trade, solid growth in wages and disposable household income against the weaker productivity and average performance of companies. In these circumstances, the National Bank began cautiously normalizing monetary policy under the influence of the European Central Bank policy. The interest rate on Central bank bills in 2024 was three times decreased by the National Bank and in December 2024 reached 5.55 % (6.30 %, 2023).

According to the reported annual growth rate of real gross domestic product (GDP) in 2024 was 2.8 % (2.1 % in 2023) from 1% for 2023. These results were influenced by the growth of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, accommodation and food service activities and professional, scientific and technical activities and administrative and support service activities. In 2024, household final consumption increased by 4.8 % in nominal terms and its share in the GDP structure was 67.9 %.

In 2024, industrial production fell on an annual basis for 1.4% in conditions of decline and negative effects from the mining and quarrying and manufacturing industries. On the other hand, electricity, gas, steam and air conditioning industry increased by 5,7 % on annual basis.

Inflation measured through the consumer price index in 2024 on an annual base reached rate of 4.4 % while cumulative rate for January-December 2024 is 3.5 %.

The slowdown in the annual inflation rate is entirely the result of slower growth in food component prices, stabilisation of energy component price growth and slowing in base inflation. Despite expectations of further inflation cuts, uncertainty over the future price dynamics of primary products on stock markets still exists.

Credible and consistent macroeconomic policies have resulted in a confirmed credit rating of the country. Fitch audited the appearance of the country's credit rating in BB+, while Standard & Poor's confirmed a BB- with a stable outlook. The credit rating has a positive impact on investment decisions in the country, with the potential for a significant impact on increasing economic growth, exports, employment and wages. Additionally, the exchange rate Denar/Euro remained relatively stable, without significant fluctuations, due to the continued maintenance of a high amount of foreign exchange reserves.

The analysis of the adequacy indicators of exchange reserves shows that they continue to be maintained in the safe zone. The amount of gross exchange reserves at the end of November 2024 was 4,920 million Euro. Viewed through the factors of change, this mainly stems from state transactions, in the event of stable movements in the foreign exchange market.

Unemployment rate continued to fall to historical low of 11.9 % in 2024 (13.0 %, 2023).

At the level of banking sector, total loans at the end of 2024 resulted with annual growth of 11.2 % (5.1 %, 2023). From sectorial aspect, the increase is the result of credit growth of companies and households 13.9 % and 8.8 %, respectively (3.3 % and 6.7 %, respectively, 2023).

Deposits from non-banking sector at the end of 2024 increased by 12.4 % compared to the same period last year (8.7 %, 2023), out of which deposits from households increased by 13.8 % and corporate deposits grew by 9.2 % (7.9 % and 13.2 %, respectively, 2023).

Quality of credit portfolio is almost unchanged according to the share of non-performing loans in total loans of 2.6 % in 2024 (2.7 %, 2023). This ration for households sectors still remains stable to 2.5% as of December 2024 (1.9%, 2023), while at the corporate sector the ratio decreased to 2.7 % (3.5 %, 2023).

Such performances of the Macedonian banking sector resulted with increased profit before tax in the third quarter of 2024 by 22.9% compared to the same quarter of 2023.

# **Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

Macedonian economy, as small and open, is extremely dependent on events in the European economy as our most important trading partner. The military conflict and high exposure to Germany -exports are increasing the uncertainty in the domestic economy. These events negatively affect the financial condition of companies, the performance of their operations, and the available household income. However, so far, the Bank has no significant direct exposure to related parties or key clients.

# 2. Summary of significant accounting policies

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

# 2.1 Statement of compliance

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

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

#### 2.2 Basis for preparation and presenting the financial statements

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

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

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Although these estimates are based on management's best knowledge of current events and activities, actual results may ultimately differ from those estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognised in the period in which the estimate is revised. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.29.

#### 2.3 Comparative amounts

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed in comparative amounts. During 2024 no changes were made in comparative amounts.

#### 2.4 Foreign currency translation

#### a) Functional and presentation currency

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

#### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the middle exchange rates prevailing at the dates of the transactions according to exchange rate list of the National Bank of the Republic of North Macedonia (hereinafter: "NBRNM"). Foreign exchange gains and losses

# 2. Summary of significant accounting policies (continued)

# 2.4 Foreign currency translation (continued)

resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

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

For other equity instruments classified as capital denominated in foreign currency, exchange rate differences from subsequent measurements of the instruments are included in retained earnings.

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

The foreign currencies the Bank deals with, are predominantly Euro (EUR), United States Dollar (USD) and the Swiss franc (CHF). The exchange rates used for translation at 31 December 2024 and 31 December 2023 were as follows:

	2024	2023
	MKD	MKD
1 EUR	61.49	61.49
1 USD	58.88	55.65
1 CHF	65.18	66.41

# 2.5 Interest income and expenses

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

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

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

# 2. Summary of significant accounting policies (continued)

# 2.5 Interest income and expense (continued)

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

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

#### 2.6 Fee and commission income and expenses

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

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

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

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

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

#### 2.7 Dividend income

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

#### 2.8 Financial instruments

#### a) Classification and measurement

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

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

# 2.8 Financial instruments (continued)

#### Financial assets

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

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

#### Financial assets measured at amortised costs (AC)

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

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

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

Loans and advances to banks include money market transactions, term deposits in banks and loans given to banks and savings houses.

Loans and advances are initially recognised when the Bank becomes party to the contractual provisions of the instrument, or when the assets are originated. Loans and advances are initially measured at cost (fair) value plus transaction costs directly attributable to the origination of the asset and subsequently are carried at amortised cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the income statement. Interest income is recognized in item "Net interest income calculated using the effective interest method", foreign exchange gains and losses in item "Net foreign exchange gain/(loss)", while impairment are recognized in item "Impairment of financial assets".

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

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

These financial assets are recognised in the statement of financial position at the trading date.

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

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

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

Debt financial instruments are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling ("held to collect and sell"), and if cash

# 2. Summary of significant accounting policies (continued)

# 2.8 Financial instruments (continued)

flows are SPPI on the principal amount outstanding. FVOCI results in the debt instruments being recognised at fair value in the statement of financial position and at AC in the income statement. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised separately in the income statement. Other net gains and losses are recognised in other comprehensive income, until the instrument is derecognised. At derecognition of the debt financial instrument, the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

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

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

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

#### Financial liabilities

Financial liabilities are liabilities that are:

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

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

- financial liabilities that are measured at amortised cost or
- financial liabilities that are measured at fair value through the Profit or Loss.

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

For financial liabilities that are measured at fair value through the profit or loss, changes in the fair value of financial liabilities are recognized in the income statement.

#### Assessment of NLB Bank's business model

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

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to key management personnel;
- how the performance is monitored;
- the risks that affect the performance of the business model and, in particular, the way those risks are managed;

2. Summary of significant accounting policies (continued)

# 2.8 Financial instruments (continued)

- how the managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets or on collection of contractual cash flows);
- the expected frequency, value, and timing of sales;
- what are the motives and the intention to approve the financial assets/liabilities and what business objective is wanted to achieve;
- which are the income/expenses derived from the financial assets/liabilities;
- what are the future expectations of the Bank for managing the financial assets/liabilities, etc.

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

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

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

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

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

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

The Bank reviewed the portfolio within "held to collect" and "held to collect and sale" for standardised products on a level of a product sample and for non-standardised products on a single exposure level.

# 2. Summary of significant accounting policies (continued)

# 2.8 Financial instruments (continued)

The Bank established a procedure for SPPI identification as part of regular investment process with defined responsibilities for primary and secondary controls. Special emphasis is put on new and non-standardised characteristics of the loan agreements.

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

#### Accounting policy for modified financial assets

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

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

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

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

#### 2.8.1 Reclassification

Reclassification of debt financial assets from one category to another is possible only if there is a change in the business model of the Bank for managing these assets. Reclassifications are made in rare cases when the change in the business model has a significant impact on the Bank's business operations, when the change is due to a change in external or internal factors that have a significant impact on the Bank's activities and other. The decision to change the business model is made by the Bank's management. If there is a change in the business model, the Bank must reclassify all financial assets from one to other category. In such cases, the reclassified assets continue to be measured according to the principles of the new category from that date prospectively, i.e., no adjustments are made to all previously recognised profits or losses. The reclassification takes place from the start of the reporting period following the change.

Financial liabilities shall not be reclassified. Reclassification of investment in equity instruments from one category to another is not allowed.

- 2. Summary of significant accounting policies (continued)
- 2.8 Financial instruments (continued)

#### 2.8.2 Principles of measurement

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

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

#### 2.8.2.1 Principle of measurement at amortised cost

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

- the amount at initial recognition;
- reduced for repayments of principal;
- decreased or increased by the amount of accumulated amortisation using the effective interest method, for each difference between the amount at initial recognition and the maturity amount and
- decreased for impairment (only for financial assets).

#### Effective interest rate

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

When calculating the effective interest rate, consideration shall be taken to:

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

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

- impairment losses.

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

#### 2.8.2.2 Principle of measurement at fair value

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

The fair value is determined in a variety of ways, depending on whether the asset or liability is traded on an active market or is not traded.

- 2. Summary of significant accounting policies (continued)
- 2.8 Financial instruments (continued)
- 2.8.2 Principles of measurement (continued)

#### Active Market: Published price

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

#### Absence of active market: Valuation techniques

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

The usual valuation techniques in the Bank are: market approach (quoted prices or other relevant information from market transactions with the same or similar assets or liabilities) and an income approach (discounted value of current market expectations for future amounts (cash inflows or income and expenses)) of the asset or liability.

When applying the valuation techniques, the Bank:

- uses information on the achieved prices of the recent (from the last 6 months), normal, commercial transactions for the same financial instrument between familiar, voluntary parties (if available);
- if there is no information about the prices achieved from the recent transactions for the same financial instrument, then, for determining the fair value, the current market price of another instrument, which is essentially the same (in the sense that it is in the same currency and with the same or similar maturity), should be applied;
- if information on the fair value of a financial instrument cannot be obtained from the markets, then the determination of the fair value of the financial instrument uses data that cannot be observed on the market.

Valuation techniques should cover all factors that market participants take into account in determining the price and should be consistent with the adopted economic methodologies for determining the price of financial instruments.

The Bank may change or make changes to the valuation technique of the financial instrument, if such change is due to the development of new markets, the availability of new information, changes in the market conditions or the improvement of the valuation technique, and if it gives more appropriate fair value to the financial instrument. Corrections due to a change in the valuation technique represent a change in the accounting estimates in accordance with IAS 8.

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

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

An appropriate discount rate can be determined as follows:

- rate based on the current market yield of the instrument or instrument with similar characteristics;
- reference to a risk-free rate corrected for the corresponding asset risk. When determining the discount rate and both factors should be considered individually. The risk-free rate is normally based on government bonds with comparable characteristics (currency and maturity)

- 2. Summary of significant accounting policies (continued)
- 2.8 Financial instruments (continued)

#### 2.8.2 Principles of measurement (continued)

of the assets or liabilities for which the discount rate will apply. The risk premium of an asset is equal to the amount that market participants would have asked for as consideration for the uncertainty of the future cash flows of the asset.

#### Absence of active market: Equity instruments

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

#### b) Recognition

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

The Bank initially recognizes financial liabilities on the date they incurred.

# c) Derecognition

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

#### d) Write-off

The Bank writes off receivables in the following cases:

Off-balance transfer of written-off claims

- Bank does not have the right to future cash flows, i.e. the rights to recover the credit exposure have expired, regardless of the basis for which they were lost or are expired rights, which in particular include: an effective court decision on the groundlessness of the Bank's claim, an effective court decision on the lack of right to the claim, an effective court decision on concluded bankruptcy proceedings, an effective court decision on an approved plan for the reorganization of a debtor in bankruptcy, provided for the same, make a correction of the value of 100 %;
- The Bank has no reasonable expectation of repayment of the credit exposure in whole or in part, provided that they are 100% impaired;
- Minor amounts of individually insignificant claims not exceeding MKD 3,000 for products of natural entities and MKD 6,000 for products of legal entities;
- If twelve months have passed from the date when the Bank was required to make impairment or provisions in the amount of 100%.
- The Bank made a decision for debt termination in accordance with the law with which it waives further collection of the claim.

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

# 2. Summary of significant accounting policies (continued)

#### 2.8 Financial instruments (continued)

# 2.8.2 Principles of measurement (continued)

Final write-off of claims

- Final write-offs are write-offs of claims which were handled in the off-balance sheet for at least ten (10) years and such claims may recorded and closed in the Bank's accounting records after the expiry of the said period.
- The final write-off of receivables in custody of REWO transferred to off-balance sheet records are carried out based on at least one or more criteria in the Attach 1 from Rulebook for write-off of claims in NLB Banka AD Skopje.

The Bank may write-off financial assets that are still subject to enforcement activities, but this does not affect its rights in the enforcement's procedures. The Bank still seeks to recover all amounts it is legally entitled to in full. Write-off reduces the gross carrying amount of a financial asset and allowance for the impairment. Any subsequent recoveries are credited to credit loss expense. Write-offs and recoveries are disclosed in note 27 a).

#### e) Derivative financial instruments

Derivative financial instruments - including forwards and swaps - are initially recognized in the statement of financial position at fair value. Derivative financial instruments are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or pricing models, as appropriate. All derivatives are carried at their fair value within assets when the derivative position is favorable to the Bank and within liabilities when the derivative position is unfavorable to the Bank (notes 34 and 43).

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

#### 2.9 Impairment of financial assets

#### a) Expected credit losses for collective allowance

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

The allowance is based on the ECL associated with the probability of default (PD) in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the PD over the life of the financial asset (LECL). When determining whether the risk of default increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank historical data, experience, and expert credit assessment and incorporation of forward-looking information.

#### Classification into stages

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

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

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

Classification between stages depends on:

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

The methodology of credit rating for banks and sovereign classification depends on the existence or non-existence of a rating from international credit rating agencies Fitch, Moody's, or S&P. Ratings are set on a basis of the average international credit rating. If there are no international credit ratings, the classification is based on the internal methodology.

The classification into stages is based on the facility level, nevertheless occurring delays on one facility may trigger the stage deterioration of other facilities of the same client. When the SICR criteria no longer exist, the facility may be transferred to a more favourable stage subject to the prescribed holding period.

ECL for stage 1 financial assets is calculated based on 12-month PDs or shorter period PDs, if the remaining maturity of the financial asset is shorter than 1 year. PDs are calculated for three different macroeconomic scenarios, each with probability weight (w), therefore in this step also three ECLs are calculated, which at the end are weighted with scenario probabilities to get the final ECL. Each set of 12-month PDs includes macroeconomic impact/forward looking component.

ECL for stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition. There are three scenarios with three different macro effects, namely severe (pessimistic), baseline (expected) and mild (optimistic), as for Stage 1 exposures. Time (t) is the same as the maturity for Stage 2.

For financial instruments in stage 3, are treated as non-performing. Exposures below the materiality threshold obtain collective allowances using PD of 100%. Financial instruments will be transferred out of stage 3 if they no longer meet the criteria of non-performing after a probation period. Special treatment applies for purchased or originated credit-impaired financial instruments (POCI), where only the cumulative changes in the LECL since initial recognition are recognised as a loss allowance.

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

# 2. Summary of significant accounting policies (continued)

# 2.9 Impairment of financial assets (continued)

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

The weights of all three economic scenarios are used in the final step in the process of ECL calculation, ECL is obtained as a weighted average of ECL1, ECL2 and ECL3:  $ECL = ECL_1 * w_1 + ECL_2 * w_2 + ECL_3 * w_3$ 

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

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

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

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

#### Expected Life

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

#### Forward looking information

The Bank incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECL. The Risk Parameters for ECL calculation are estimated with forward-looking (FL) Z-Score. The Bank considers forward-looking information such as macroeconomic factors (GDP, unemployment rate and inflation rate ) and economic forecasts. The steps for calculating the FL Z-Score are as following:

- The Vasicek approach is used for calculating historical Z-score based on historical data
- FL Z-Score is modelled based on historical Z-Score and macroeconomic data
- The Risk Parameters are estimated based on the FL Z-Score

Recalculation of all parameters is performed annually or more frequently if the macro environment changes more than it was incorporated in previous forecasts. In such a case all the parameters are recalculated according to new forecasts. Effects of changed risk parameters on the amount of ECL are disclosed in note 27.

#### Forborne loans

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

# 2. Summary of significant accounting policies (continued)

# 2.9 Impairment of financial assets (continued)

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

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

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

The absence of doubt is confirmed by analysis of the financial situation of the debtor.

The forborne status is withdrawn when:

- at least 2-year probation period has passed from the latest of:
  - · the moment of conducting or extending the restructuring measures or
  - the forborne exposure was considered performing (transition to performing exposure (PE) rating);
- regular payments of the principal or interest were made, in a substantial total amount (at least 1/7 of the debt is repaid), during at least half the probation period;
- no exposure to the debtor, in the probation period, is more than 30 days past due more than MKD 6,150 or 100 EUR (if the delay is more than 30 days past due more than MKD 6,150 or 100 EUR, the exposure become NPL again) and
- specific financial indicators according to the internal criteria and procedures are being met.

#### b) Individual assessment of allowances for impaired financial assets

#### Assets carried at an amortised cost

The Bank assesses impairments of financial assets separately for all individually significant assets classified in stage 3. All other financial assets obtain collective allowances. The materiality threshold is set at MKD 6,150 thousand or EUR 100 thousand exposure for legal entities and MKD 3,075 thousand or EUR 50 thousand for private persons.

The amount of the ECL is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which are discounted to the estimation date. The scenario of expected cash flows can be based on the "going concern" assumption, where the cash

# 2. Summary of significant accounting policies (continued)

# 2.9 Impairment of financial assets (continued)

flow from operations is considered along with the sale of collateral that is not crucial for future business. In the case of the "gone concern" principle, the repayments are based on expected cash flows from the sale of collateral. The expected payment from the collateral is calculated from the appraised market value of the collateral, the haircut (HC) used as defined in the Collateral Policy. Offbalance sheet liabilities are also assessed individually and, where necessary, related allowances are recognised as liabilities.

The carrying amount of financial assets measured at amortised cost is reduced through an allowance account and the loss is recognised in the income statement item "Impairment of financial assets". If the amount of allowances for ECL decreases subsequently due to an event occurring after the impairment was recognised (e.g. repayment in the collection process exceeds the assessed expected payment from collateral), the reversal of the loss is recognised as a reduction in the allowance account and gain is recognised in the same income statement item. For off-balance exposures, the amount of ECL is recognised in the statement of financial position in item "Provisions" and also in the income statement in item "Provisions". The ECLs for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit or loss upon derecognition of the assets or when the amount of allowances for ECL decreases due to an event occurring after the impairment was recognised.

#### 2.10 Investments in associates

Any investment held by over 20% and more than the total number of shares or voting rights of the company in which it is invested, and there is a significant influence over the company but not control over the company in which is invested, is an investment in associate company.

An investment in associated company is recognized as an asset in the balance sheet when the Bank obtains significant influence.

Initial measurement of the investment in the associate company is carried at cost (cost of investment). Transaction costs are included in the initial measurement of the investment. Subsequent measurement of the investment in the associate company is under the equity method by which the carrying amount is increased or decreased to recognize the participation of the Bank in

accordance with the realized net profit/loss of the entity in which it is invested. Respectively the profit/loss is presented in the income statement in the note 29 - Share of profit/(loss) from investments in associates (accounted for using the equity method). All distributions (dividends) received by the company in which it is invested, reduces the carrying value of the investment.

#### 2.11 Investments in equity instruments

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

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

# 2. Summary of significant accounting policies (continued)

# 2.11 Investments in equity instruments (continued)

Foreign exchange gains and losses on equity instruments classified as at fair value through other comprehensive income are recognised in other comprehensive income.

Dividends arising from equity investments are recognised in the income statement when the Bank's right to receive payment is determined.

In accordance with the IFRS 9, for investments in equity instruments, impairment is not calculated.

# 2.12 Foreclosed collateral

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Foreclosed assets include land, property, equipment and other items acquired through foreclosure proceedings in full or partial satisfaction of a related loan. These assets are reported as foreclosed collateral. Initially, these assets are measured at fair value less cost to sell, as estimated and documented upon repossession and are sold as soon as is practical to reduce exposure. Management has made an estimate of the expected recoverable amount net of cost to realise the assets, based on several factors, including independent assessment.

At subsequent measurement, the realisable value is verified at least annually. Valuations of the fair value of real estate and other foreclosed assets are performed by certified real estate appraisers. The real estate and other assets are impaired when the carrying value exceeds the realisable value. The effect of impairment is presented as impairment of non- financial assets in the income statement. The Bank measures foreclosed collateral in accordance with IAS 2 Inventories.

#### 2.13 Offsetting financial instruments

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

#### 2.14 Property, equipment, and right-of-use assets

All items of property and equipment are initially recognised at cost. They are subsequently measured at cost less any accumulated depreciation and any accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the items.

Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in note 2.17. Right-of-use assets are depreciated on a straight-line basis over the lease term.

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

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

	2024	2023
Buildings	40 years	40 years
Leasehold improvements	5 years	5 years
Computers	5 years	5 years
Furniture and equipment	4-10 years	4-10 years
Motor vehicles	4-8 years	4-8 years

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

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

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

Each year, the Bank assesses whether there are indications that property and equipment may be impaired. If any such indication exists, the recoverable amounts are estimated. The recoverable amount is the higher of the fair value less costs to sell and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired. If the carrying amount exceeds the recoverable amount, the difference is recognised as an impairment loss in the income statement. The assets' residual values and useful lives are reviewed and adjusted if appropriate on each reporting date. Gains and losses on the disposal of items of property and equipment are determined as the difference between the sale proceeds and their carrying amount and are recognised in the income statement (note 10).

## 2.15 Intangible assets

Intangible assets include software, licenses and other intangible assets (note 32). Intangible assets that are acquired by the Bank have a finite useful life and in the statement of financial position are stated at cost less accumulated amortisation and impairment losses.

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

Depreciation is charged to the income statement on a straight-line basis at rates designed to writedown the cost of an intangible asset over its estimated useful life. Intangible assets are amortised from the date they are available for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

	2024	2023
Software	4-10 years	4-10 years
Patents and licenses	3-10 years	3-10 years
Other	5 years	5 years

#### 2.16 Investment property

Investment properties include buildings held to earn rentals. The Bank holds investment property that was acquired due to reclassification from tangible assets to investment property. Rental income from investment property is recognised in the income statement on a straight - line basis over the term of the lease.

Investment property is measured at fair value determined by a certified appraiser, which reflects market conditions at the date of the statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the year in which they arise.

When the Bank makes a decision to use the assets for its own purposes, they are reclassified to property and equipment.

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

#### 2.17 Leases

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

#### Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The most significant type of leases are leases of business premises, motor vehicle and sublease of POS-terminals. The leases have an average life of between one and ten years. There are no restrictions placed upon the lessee by entering into these. The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank does not have lease contracts that include extension and termination options.

The Bank has certain leases for ATM space and office equipment with lease terms of 12 months or less or with low value and applies the "short-term lease" and "lease of low value assets" recognition exemption for these leases.

#### Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease at cost (i.e., the date the underlying asset is available for use) except for short-term leases and leases of low-value assets. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. After the commencement date, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the lease term. In the statement of financial position, the right-of-use assets are presented within note 31 Property, equipment and right-of-use assets.

#### Lease liabilities

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

Important assumption for the calculation of the net present value of the future lease payments was the discount rate where the Bank applies the internal transfer price for retail deposits according to the lease term. In case internal transfer price for retail deposits for the relevant maturity and lease currency is negative, the value of 0% is taken into account.

Subsequently (after the commencement date), the Bank measures the lease liability by:

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

In the statement of financial position, lease liabilities are presented within note 41 - Other financial liabilities.

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

## 2.17 Leases (continued)

#### Bank as a lessor

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

## 2.18 Cash and cash equivalents

For the statement of cash flows, cash and cash equivalents comprise cash and balances with National Bank of the RNM and other demand deposits at banks, loans to banks and debt securities not held for trading with an original maturity of up to three months. Cash and cash equivalents are disclosed under the statement of cash flows.

## 2.19 Borrowings, deposits, subordinated liabilities, and debt securities in issue

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

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

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

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

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

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

## 2.20 Provisions

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

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

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

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

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

## 2.21 Contingent liabilities and commitments

#### Financial and non-financial guarantees

Financial guarantees are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payments when due, in accordance with the terms of debt instruments. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of the customer to secure loans, overdrafts, and other banking facilities. The issued guarantees covering non-financial obligations of the clients represent the obligation of the Bank (guarantor) to pay if the client fails to perform certain works in accordance with the terms of the commercial contract.

Financial and non-financial guarantees are initially recognised at fair value, which is usually evidenced by the fees received. The fees are amortised to the income statement over the contract term using the straight-line method. The Bank's liabilities under guarantees are subsequently measured at the greater of:

- the initial measurement, less amortisation calculated to recognise fee income over the period of guarantee; or
- ECL provisions as set out in note 42.

#### Documentary letters of credit

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

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

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

#### Other contingent liabilities and commitments

Other contingent liabilities and commitments represent undrawn loan commitments to extend credit, uncovered letters of credit, and other commitments. The nominal contractual values of guarantees, letters of credit, and undrawn loan commitments where the loan agreed to be provided is on market terms, are not recognised in the statement of financial position.

Other contingent liabilities and commitments are treated as financial guarantee in accordance with IFRS 9.

#### 2.22 Taxation

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

#### a) Current tax assets/liabilities

Current tax assets/liabilities include the liability for income tax determined by the Bank's tax return for the current financial period.

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

## 2.22 Taxation (continued)

Due to Macedonian tax legislation, the Bank calculates income tax on the gross profit calculated as the difference between total revenue and total expenses, determined in accordance with accounting regulations and accounting standards, increased for non-deductible expenses for tax purposes determined by the law, and reduced for the amount of investments of profits from previous year and the dividends realized through participation in the capital of another taxpayer that already has paid the tax.

Current tax assets/liabilities are recognised when the amount of tax paid for the current and previous periods is higher/lower than the amount owed for the period when the liability is not settled. Income tax rate in 2024 and 2023 is 10%.

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

During 2023, the Assembly of the Republic of North Macedonia passed the Law on solidarity tax as a one-time public charge for 2023, which is determined and paid in conditions of unpredictable and unfavorable economic circumstances in the RNM and is based on the principles of fairness, equality, and proportionality, according to which everyone is obliged to participate in the settlement of public expenditures in accordance with their economic capabilities. The Bank had no obligation to pay solidarity tax.

According to the tax legislation, taxes and tax liabilities expire after period of 5 years, with exception of a tax fraud with expiration of 10 years. As a result, the Bank's tax liabilities for the period from 2020 to 2024 cannot be considered as final. Any additional taxes and penalties, if any, which may arise in the event of a tax audit, at this stage, cannot be determined with reasonable accuracy.

On January 3, 2025, the Low minimum global corporate income tax was enacted, with application for the fiscal year beginning January 1, 2024. The law aligns with Council Directive (EU) 2022/2523 of December 14, 2022, and implements the OECD model rules against base erosion, i.e. providing a global minimum level of taxation for groups of multinational companies (MNCs) and large domestic groups of the Union. The minimum effective taxation of MNCs profits is provided by applying the following rules for payment of additional tax:

- 1. Rule for determining the Qualified Domestic Top-up Tax (QDMTT);
- 2. Income Inclusion Rule (IIR);
- 3. Undertaxed Payment Rule (UTPR).

The application of the rules determines the amount of top-up-tax, thus ensuring that the effective taxation of profits is at least 15%.

The Bank has calculated top-up global tax for fiscal year 2024 amounting to 134,554 thousand denars and is presenting in Income tax expense (note 19).

## b) Deferred tax

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

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

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

## 2.23 Fiduciary activities

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

## 2.24 Employee benefits

Employee benefits include:

- short-term employee benefits (such as salaries, compensations, annual holiday allowance, separation allowance and non-monetary benefits);
- reimbursement of commuting costs, compensation for use of own resources;
- retirement indemnity bonuses (post-employment benefits);
- other employment benefits (jubilee long-service benefits, voluntary supplementary pension insurance) and
- variable remuneration.

Short-term employee benefits are recognised in the period to which they relate and included in the income statement item "Personnel expenses". Among others they include the payment of contributions for pension and health insurance, additional health insurance and contribution for employment, which according to local legislation (for employer) amount to 28% of the gross salaries. Due to legislation, employees retire when they turn 64 years (men) and 62 years (women). There is a possibility to extend employment for women up to 64 years regarding the labour law. Employees are

entitled to a lump-sum severance payment for retirement. Employees are also entitled to a longservice bonus for every 10 years of service in the Bank according to the Bank's Collective agreement. These obligations are measured at the present value of future cash outflows considering future salary increases and other conditions, and then apportioned to past and future employee service based on benefit plan terms and conditions.

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

## 2.25 Share-based payment transactions

#### Cash-settled share-based payment transactions

If certain conditions are met, members of the Management Board and employees performing special work (i.e., those who can significantly impact the risk profile of the Bank in the scope of their tasks and activities) receive part of their variable remuneration in the form of financial instruments, whose value is linked to the value of NLB d.d. share. Upon expiration of legally prescribed period on NLB Group level (3 years and 1 month after handling over), beneficiaries receive cash payments, depending on the value of NLB d.d. share. First contracts including share-based payment transactions were concluded in second quarter of 2022 for the financial years 2019 and 2021. The contracts including share-based payment transaction for the financial years 2022 and 2023 were concluded in the 2023 and 2024 respectively.

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

## 2.25 Share-based payment transactions (continued)

In the Statement of financial position, a liability is recognised in the item "Financial liabilities measured at fair value through profit or loss" (note 35). Its fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in the income statement in the item "Net gains/(losses) from financial liabilities measured at fair value through profit or loss" (note 8).

#### Equity-settled share-based payment transactions

The Bank does not have any equity-settled share-based payment transactions.

#### 2.26 Share capital

(a) Ordinary shares

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

#### (b) Dividends on ordinary shares

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

## 2.27 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year.

Diluted EPS is determined by adjusting the net profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential shares.

Diluted earnings per share is identical with the basic (EPS), because there are no potential shares issued, which have an effect of the correction on the net profit attributable to holders of ordinary shares.

## 2.28 Related-party transactions

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

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

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

#### 2.29 Critical accounting estimates and judgments

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

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

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

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

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

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

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

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

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

The models used to estimate future risk parameters are validated and back tested from the established Validation Unit in NLB d.d. on a regular basis to make ECL as realistic as possible.

In general, in the severe scenario the global economy faces significant challenges due to ongoing conflicts, unstable markets, supply chain disruptor, labor shortages and slow technological growth. These issues lead to high prices and reduced spending. The European Central Bank (ECB) balances controlling inflation and supporting the economy by carefully considering both demand and supply factors when setting interest rates. This scenario results in a prolonged global recession, making it difficult to achieve sustainable development goals.

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#### 2. Summary of significant accounting policies (continued) 2.29 Critical accounting estimates and judgments (continued)

Following are baseline projections of the macroeconomic variables on GDP and unemployment:

	2024	2025	2026	
Real GDP	2.6%	3.2%	3.2%	
Unemployment	12.7%	12.4%	12.2%	

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

	Severe				
	2024	2026			
Real GDP	1.4%	0.7%	2.6%		
Unemployment	14.4%	18.2%	19.2%		

Additionally, below are presented the baseline and severe projections of the same macroeconomic variables used in the prior period (Y2023):

Baseline	2023	2024	2025
Real GDP	1.6%	3.0%	3.3%
Unemployment	13.9%	13.7%	13.4%

Severe	2023	2024	2025
Real GDP	0.3%	1.1%	1.4%
Unemployment	15.3%	16.0%	16.3%

For the mild scenario the main assumptions are that the geopolitical tensions ease, boosting investor confidence. Financial markets stabilize, leading to more investment and economic growth. Supply chains adapt quickly, keeping inflation low. Training programs and technology create new jobs, easing labour shortages. Technological advancements increase productivity. Financing conditions improve, boosting business confidence and consumer spending. Balanced demand and supply reduce inflation, allowing central banks to support growth.

Under mild scenario, below is presented the evolution of relevant variables:

-	2024	2025	2026
Real GDP	3.8%	4.2%	4.2%
Unemployment	12.2%	10.9%	10.7%

Additionally, below are presented the projections of the same macroeconomic variables under the mild scenario used in the prior period (Y2023):

	2023	2024	2025
Real GDP	-1.0%	5.0%	4.6%
Unemployment	15.2%	15.5%	14.0%

Risk parameters from the Severe scenario are used as stress test with 100% weight on ECL.

## 2. Summary of significant accounting policies (continued) 2.29 Critical accounting estimates and judgments (continued)

The results of the stress scenario (Severe) for the Bank show an increase of impairments by EUR 5,4 million or MKD 332,9 million compared with actual amount of impairments and provisions at end of year (2023: EUR 8,1 million or MKD 500,9 million).

The PDs and LGD multipliers for this stress scenario are presented below:

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

#### 1. PD

#### Retail segment on short ratings

		_	SEVERE		
SEGMENT	TYPE	RATING	FL PD 2024	FL PD 2025	FL PD 2026
FO	CONS	А	2.05%	2.70%	3.62%
FO	CONS	В	18.35%	16.26%	15.97%
FO	CONS	С	23.34%	19.57%	18.29%
FO	MRTG	А	0.41%	1.60%	2.43%
FO	MRTG	В	13.48%	23.72%	24.30%
FO	MRTG	С	20.60%	30.53%	28.76%
FO	OTHR	А	1.44%	2.58%	3.13%
FO	OTHR	В	15.39%	17.98%	16.77%
FO	OTHR	С	24.87%	25.18%	21.48%

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

## 2.29 Critical accounting estimates and judgments (continued)

## Corporate segment on long ratings

		SEVERE		
ТҮРЕ	RATING	FL PD 2024	FL PD 2025	FL PD 2026
MEDIUM_LARGE	AAA	0.23%	0.68%	1.25%
MEDIUM_LARGE	AA	0.78%	1.00%	1.54%
MEDIUM_LARGE	A	1.31%	1.34%	1.88%
MEDIUM_LARGE	BBB	1.57%	1.71%	2.44%
MEDIUM_LARGE	BB	2.92%	3.38%	4.49%
MEDIUM_LARGE	В	4.89%	4.84%	5.89%
MEDIUM_LARGE	CCC	14.57%	11.83%	12.03%
MEDIUM_LARGE	CC	25.66%	18.67%	17.49%
MEDIUM_LARGE	С	31.07%	24.47%	23.58%
SMALL	AAA	1.02%	0.99%	1.34%
SMALL	AA	1.96%	1.94%	2.56%
SMALL	A	2.86%	3.73%	5.29%
SMALL	BBB	3.57%	4.20%	5.75%
SMALL	BB	4.26%	5.13%	6.75%
SMALL	В	8.14%	7.55%	8.72%
SMALL	CCC	13.86%	11.36%	11.81%
SMALL	CC	26.20%	20.56%	19.49%
SMALL	С	32.85%	23.29%	21.08%
SP_MICRO	AAA	0.86%	1.17%	1.62%
SP_MICRO	AA	4.20%	5.74%	7.47%
SP_MICRO	A	7.41%	10.10%	12.60%
SP_MICRO	BBB	8.44%	11.35%	13.77%
SP_MICRO	BB	10.04%	12.75%	14.98%
SP_MICRO	В	11.62%	14.14%	16.19%
SP_MICRO	CCC	27.65%	25.75%	25.04%
SP_MICRO	CC	31.74%	27.81%	26.20%
SP_MICRO	С	35.76%	29.45%	26.95%
	MEDIUM_LARGE MEDIUM_LARGE MEDIUM_LARGE MEDIUM_LARGE MEDIUM_LARGE MEDIUM_LARGE MEDIUM_LARGE MEDIUM_LARGE MEDIUM_LARGE SMALL SP_MICRO SP_MICRO SP_MICRO SP_MICRO SP_MICRO SP_MICRO SP_MICRO	MEDIUM_LARGEAAAMEDIUM_LARGEAAMEDIUM_LARGEBBBMEDIUM_LARGEBBMEDIUM_LARGEBMEDIUM_LARGECCMEDIUM_LARGECCMEDIUM_LARGECCMEDIUM_LARGECCMEDIUM_LARGECSMALLAASMALLAASMALLBBBSMALLBBSMALLBBSMALLCCCSMALLCCCSMALLCCCSMALLCCSMALLCCSMALLCCSMALLCCSMALLCSP_MICROAASP_MICROBBSP_MICROBBSP_MICROBSP_MICROBSP_MICROCCCSP_MICROCCCSP_MICROCCCSP_MICROCCCSP_MICROCCCSP_MICROCCCSP_MICROCCCSP_MICROCCCSP_MICROCCC	MEDIUM_LARGE         AAA         0.23%           MEDIUM_LARGE         AA         0.78%           MEDIUM_LARGE         AA         1.31%           MEDIUM_LARGE         BBB         1.57%           MEDIUM_LARGE         BBB         2.92%           MEDIUM_LARGE         B         2.92%           MEDIUM_LARGE         B         4.89%           MEDIUM_LARGE         CC         14.57%           MEDIUM_LARGE         CC         25.66%           MEDIUM_LARGE         C         31.07%           SMALL         AAA         1.02%           SMALL         AAA         1.02%           SMALL         AA         1.96%           SMALL         BB         3.57%           SMALL         BB         4.26%           SMALL         BB         4.26%           SMALL         CC         13.86%           SMALL         CC         32.85%           SP_MICRO         AA         4.20%           SP_MICRO         AA         4.20%           SP_MICRO         BB         10.04%           SP_MICRO         BB         10.04%           SP_MICRO         BB         10.62%	TYPERATINGFL PD 2024FL PD 2025MEDIUM_LARGEAAA0.23%0.68%MEDIUM_LARGEAA0.78%1.00%MEDIUM_LARGEA1.31%1.34%MEDIUM_LARGEBBB1.57%1.71%MEDIUM_LARGEBB2.92%3.38%MEDIUM_LARGEB4.89%4.84%MEDIUM_LARGECC14.57%11.83%MEDIUM_LARGECC25.66%18.67%MEDIUM_LARGECC31.07%24.47%SMALLAAA1.02%0.99%SMALLAAA1.96%1.94%SMALLBBB3.57%4.20%SMALLBB3.57%4.20%SMALLBB3.57%4.20%SMALLCCC13.86%11.36%SMALLCCC13.86%1.17%SMALLCC32.85%23.29%SMALLC32.85%23.29%SMALLC32.85%23.29%SMALLC32.85%23.29%SMALLC32.85%23.29%SP_MICROAA4.20%5.74%SP_MICROBB10.04%12.75%SP_MICROBB10.04%12.75%SP_MICROBB11.62%14.14%SP_MICROCCC27.65%25.75%SP_MICROCCC31.74%27.81%

#### 2. Summary of significant accounting policies (continued) 2.29 Critical accounting estimates and judgments (continued)

#### 2. LGD Multipliers

According to the above-described scenario, LGD forward looking projections are derived. These projections serve as inputs for forward-looking LGD values, i.e. LGD multipliers applied for the IFRS 9 provisioning calculation. The LGD multipliers for severe scenario are presented below:

SEVERE				
2024 2025 2026				
114.51%	111.81%	114.60%		

#### (b) Fair value of financial instruments

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

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

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

#### (c) Impairment of foreclosed assets

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

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

#### (d) Employee benefits

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

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

## 2.29 Critical accounting estimates and judgments (continued)

	2024	2023
Actuarial assumptions		
Discount factor (in%)	5.6	7.25
Wage growth based on a forecast on inflation, promotions and wage growth based on past years of servives (in %)	3.0 - 5.0	3.0 - 11.6
Other assumptions		
Number of employees eligible for benefits	866	851

#### Sensitivity analysis of significant actuarial assumption

2024	Discount rate		Growth of benefits	
	+0.5 p.p	-0.5 p.p	+0.5 p.p	-0.5 p.p
Impact on employee benefits provisions (in%)	(3.70)	4.0	4.2	(3.90)
Impact on employee benefits provisions (in MKD thousands )	(1,442)	1,542	1,598	(1,503)
2023	+0.5 p.p	-0.5 p.p	+0.5 p.p	-0.5 p.p
Impact on employee benefits provisions (in%)	(3.6)	3.8	4.0	(3.8)
Impact on employee benefits provisions (in MKD thousands )	(1,291)	1,381	1,433	(1,352)

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

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

## 2.29 Critical accounting estimates and judgments (continued)

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

	2024	2023
Actuarial gains and losses due to a change	1.380	539
in financial assumptions	.,	
Actuarial gains and losses due to a change		
in demographic assumptions	-	-
Actuarial gains and losses due to		
experience	(85)	632
Total actuarial gains (-) and losses (+) in		
• • • • • • • •	1,295	1,171
the period		

#### The weighted average duration of liabilities in years

	2024	2023
Post-employee benefits	16.5	17.6

# 2.30 Implementation of the new and revised International Financial Reporting Standards

During the current year, the Bank adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (hereinafter: "the IFRIC"), that are effective for annual accounting periods beginning on 1 January 2024. The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2024.

#### Standards issued but not yet effective

The following new Standards, amendments to Standards and Interpretations, are not yet mandatorily effective for the annual period starting on 1 January 2024 and have not been applied in the process of preparation of financial statements for 2024. The Bank plans to adopt these pronouncements when they become effective.

Standards, Interpretations and amendments to published Standards that have not been early adopted:

## Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchange ability (issued on 15 August 2023, effective from 1 January 2025)

Under IAS 21 The Effects of Changes in Foreign Exchange Rates, a company uses a spot exchange rate when translating a foreign currency transaction. In some jurisdictions, no spot rate is available because a currency cannot be exchanged into another currency.

#### IAS 21 was amended to clarify:

- when a currency is exchangeable into another currency; and
- how a company estimates a spot rate when a currency lacks exchangeability.

The amendments also include additional disclosure requirements to help users to assess the impact of using an estimated exchange rate on the financial statements. The Bank expects that the amendments, when initially applied, would not have a material impact on its financial statements.

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

2.30 Implementation of the new and revised International Financial Reporting Standards

## IFRS 18 Presentation and Disclosure in Financial Statements (issued on 9 April 2024, effective from 1 January 2027);

IFRS 18 replaces IAS 1 Presentation of Financial Statements. The major changes in the requirements are summarized below.

#### A more structured statement of profit or loss

IFRS 18 introduces newly defined 'operating profit' and 'profit or loss before financing and income tax' subtotals and a requirement for all income and expenses to be allocated between three new distinct categories based on a company's main business activities: operating, investing and financing.

Under IFRS 18, companies are no longer permitted to disclose operating expenses only in the notes. A company presents operating expenses in a way that provides the 'most useful structured summary' of its expenses by either:

- nature;
- function; or
- using a mixed presentation.

If any operating expenses are presented by function, then new disclosures apply.

MPMs - Disclosed and subject to audit

IFRS 18 also requires some 'non-GAAP' measures to be reported in the financial statements. It introduces a narrow definition for Management Performance Measures ("MPMs"), requiring them to be:

• a subtotal of income and expenses;

• used in public communications outside the financial statements; and

• reflective of management's view of financial performance.

For each MPM presented, companies need to explain in a single note to the financial statements why the measure provides useful information, how it is calculated and reconcile it to an amount determined under IFRS Accounting Standards.

#### Greater disaggregation of information

The new standard includes enhanced guidance on how companies group information in the financial statements. This includes guidance on whether information is included in the primary financial statements or is further disaggregated in the notes. Companies are discouraged from labelling items as 'other' and are required to disclose more information if they continue to do so.

#### Other changes applicable to the primary financial statements

IFRS 18 sets operating profit as a starting point for the indirect method of presenting cash flows from operating activities and eliminates the option for classifying interest and dividend cash flows as operating activities in the cash flow statement (this differs for companies with specified main business activities). It also requires goodwill to be presented as a new line item on the face of the balance sheet.

#### Transition

In its annual financial statements prepared for the period in which the new standard is first applied, an entity shall disclose, for the comparative period immediately preceding that period, a reconciliation for each line item in the statement of profit or loss between the restated amounts presented applying IFRS 18 and the amounts previously presented applying IAS 1.

The following amendments and improvements to standards are not expected to have a material impact on the financial statements of the Bank.

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

## 2.30 Implementation of the new and revised International Financial Reporting Standards

- IFRS 19 Subsidiaries without Public Accountability: Disclosures (issued on 9 May 2024, effective from 1 January 2027);
- Contracts Referencing Nature-dependent Electricity Amendments to IFRS 9 and IFRS 7 (issued on 18 December 2024, effective from 1 January 2026);
- Annual Improvements Volume 11 (issued on 18 July 2024, effective from 1 January 2026);
- Amendments to the Classification and Measurement of Financial Instruments Amendments to IFRS 9 and IFRS 7 (issued on 30 May 2024, effective from 1 January 2026).

## 2.31 Change in accounting policies

The following new and amended standards and interpretations are effective from 1 January 2024 but they do not have a material effect on the Bank's financial statements:

Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

The Bank has adopted Classification of Liabilities as Current or Non-current (Amendments to IAS 1) and Non-current Liabilities with Covenants (Amendments to IAS 1) from 1 January 2024. The amendments apply retrospectively. They clarify certain requirements for determining whether a liability should be classified as current or non-current and require new disclosures for non-current loan liabilities that are subject to covenants within 12 months after the reporting period.

## 2.32 Subsequent events

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

## 3. Risk management

Risk identification and the assessment of the materiality of the risks are key components in the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). The identification of risks indicates on which risk the Bank is or may be exposed. The risk identification process is conducted on an annual regular basis. If during the year there is a significant change in the risk profile or strategy of the Bank, the risk assessment is revised. The main risk categories are credit risk, market risk, interest rate risk, liquidity risk, operational risk, and other risks.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance, and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

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

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

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## 3. Risk management (continued)

The Bank's Risk management framework supports business decision - making on strategic and operating levels, comprehensive steering, and proactive risk management by incorporating:

- risk appetite statement and risk strategy orientations;
- yearly review of strategic business goals, budgeting, and capital planning process;
- ICAAP and ILAAP;
- recovery plan activities;
- other internal stress-testing capabilities and on-going risk analysis;
- regulatory and internal management reporting.

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

#### a) Risk management strategies and processes

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

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

The Bank plans a prudent risk profile, optimal capital usage, representing an important element of its business strategy and related mid-term financial targets. The management of credit risk, which is the most important risk category in the Bank, concentrates on taking moderate risks – a diversified credit portfolio, adequate credit portfolio quality, sustainable cost of risk, and ensuring an optimal return considering the risks assumed. As regards liquidity risk, the tolerance is low, while the activities are geared towards constantly ensuring an appropriate level of liquidity, both in the short and long terms. The Bank limited exposure to credit spread risk, arising from the valuation risk of debt securities portfolio servicing as liquidity reserves, to the moderate level. The fundamental orientation in the management of interest rate risk is to limit unexpected negative effects on revenues and capital, therefore, a moderate tolerance for this risk is stated. Concerning market and operational risks, the Bank follows the orientation that such risks must not significantly impact its operations. The tolerance for other risk types is moderate and focuses on minimising their possible impacts on entire operations.

Environmental, social, and governance (ESG) risks do not represent a new risk category, but rather an aggravating factor for the types of risks, not least credit, and operational risk. The group integrates and manages them within the established risk management framework.

NLB Group and NLB Banka Skopje as part of the NLB Group are engaged in contributing to sustainable finance by incorporating ESG risks into its business strategies, risk management framework and internal governance arrangements. With the adoption of the NLB Group Sustainability programme, the Group implemented the main sustainability elements into its business model. Group's three pillar of sustainability refer to sustainable finance, contribution to society and sustainable own operations. The NLB Group Sustainability Committee oversees the integration of ESG factors into the NLB Group business model. Thus, sustainable finance integrates ESG criteria into the Group's business and investment decisions for the lasting benefit of the Group's clients and society.

## 3. Risk management (continued)

NLB d.d. as the first bank from Slovenia has committed to the UN Principles for Responsible Banking (UN PRB) – a single framework for a sustainable banking industry developed through an innovative partnership between banks worldwide and United Nations Environment Programme Finance Initiative (UNEP FI). The Principles for Responsible Banking set out our role and responsibility in shaping a sustainable future and in aligning our strategy with the objectives of the UN SDGs and the Paris Climate Agreement. They enable a bank to embed sustainability across all its business areas, and to identify where it has the potential to make the most impact in its contributions to a sustainable world, namely by leveraging new sustainable business opportunities.

Beside commitment to UN Principles of Responsible Banking the Bank signed Contract of Guarantees with MIGA. On this basis the Bank established a mechanism for environmental and social screening of current or potential financing applications against the MIGA Exclusion List, and applicable environmental and social laws. The management of ESG risks is incorporated into the Group's overall credit approval process and the related credit portfolio management. Sustainable financing is implemented in accordance with the Group's ESMS. In addition to addressing ESG risks in all relevant stages of the credit-granting process, relevant ESG criteria were also considered in the collateral evaluation process.

NLB Group as a member of the UN Net-Zero Banking Alliance, has publicly disclosed its Net-Zero commitment. With this step, the Bank made a pledge to align the bank's lending and investment portfolio with net-zero emissions by 2050. In its initial round of NZBA targets, NLB Group has focused on fossil fuel based and highly energy intensive sectors and other sectors where the Bank has substantial emissions and/or exposure (residential mortgages and commercial real estate).

In general, the management of ESG risks follows ECB, EBA and NBRNM guidelines, with tendency of their comprehensive integration into all relevant processes. ESG risks do not represent a new risk category, but rather one of the risk drivers of the existing type of risks The Group integrates and manages them within the established risk management framework.

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

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

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

## 3. Risk management (continued)

#### b) Risk management structure and organisation

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

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

Overall, the organisation and delineation of competencies in the Bank's risk management structure is designed to prevent conflicts of interest and ensure a transparent and documented decision-making process, subject to an appropriate upward and downward flow of information. Risk management in the Bank is centralised within the Risk management competence line, which is a specialized competence line encompassing several professional areas, for which the Risk, Evaluation and Control Division is responsible within the Bank, and which reports to the Assets and Liabilities Committee (ALCO), Operational Risk Committee (ORC), Risk Management Board, Management Board and the Supervisory Board. The Risk management competence line oversees formulating and controlling the risk management policies, setting limits, establishing methodologies, overseeing the harmonisation of risk management policies within the Bank, monitoring the Bank's risk exposures and preparing external and internal reports. Additionally, the Bank reports its exposure to risks to the competent organisational units within the Risk management competence line in NLB d.d.

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

#### c) Risk measurement and reporting systems

The Bank as part of the NLB Group complies with the ECB regulation and the rules set by the local regulator. With regard to capital adequacy, the Bank applies the standardised approach to credit, market and operational risk. For the purposes of measuring exposure to credit, market, interest, operational, and non-financial risks, in addition to prescribed regulations, the Bank uses internal methodologies and approaches that enable more detailed monitoring and management of risks. These internal methodologies are aligned with the Basel and EBA guidelines, as well as the local regulation and best practices in banking methodologies.

As for risk reporting, the Bank's internal guidelines reflect, in addition to internal requirements, the substance and frequency of reporting required by the local regulator and NLB d.d. Risk reporting is carried out in the form of standardised reports, pursuant to risk management policies founded on reasonable methodologies for measuring and harmonising exposure to risks, appropriate databases and the automation of report preparation, which ensures the quality of reports and reduces the possibility of errors.

#### d) Data and IT system

Most of the risk data are calculated and stored in Data Warehouse (DWH). The data are collected from transactional source systems and other source systems (e.g., general ledger). The established process provides integrated information in common reference structure where business users can

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#### 3. Risk management (continued)

access in a consistent and subject - oriented format. Data are regularly checked and validated. Data used for internal risk assessment, management, and reporting are the same as data which the Bank uses for regulatory reporting.

#### e) Main emphasis of risk management in 2024

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

In Credit risk segment there was change in the risk parameters and introduction of:

- LGD Floor for both performing and non-performing exposures in order to prevent 0% ECL coverages. In case that facility level calculated LGD is above floor, calculated LGD is used in the calculation for collective and individual provisions.
- URR separated by segments and performing/non-performing status. For non-performing exposures the time in default is taken into consideration.

The most important types of risk are credit risk, liquidity risk, market risk, interest rate risk, operational risk, and other risks. Other risk includes reputation risk, strategic risk, political risk, compliance risk etc.

In a dynamic interest rate environment during the first half of the year with rising floating interest rates (both EURIBOR and domestic floating interest rates) and mild decrease in EURIBOR in the second half of the year, the Bank faced excess liquidity, whereby significant attention was put to the structure and concentration of the liquidity reserves by incorporating early warning systems, having in mind potential adverse negative market movements. Moreover, during 2024 the Bank's capital and liquidity position remained strong, standing above the targeted risk appetite profile.

There was also a large emphasis on the management of operational risks, where the Bank follows the guideline that such risk may not considerably influence its operations. In 2024, additional efforts were made regarding proactive mitigation, prevention, and minimisation of potential damage in the future. Furthermore, key risk indicators, servicing as an early warning system for the broader field of operational risks, were reviewed (definition, adequacy and tolerance limits) and monitored on a quarterly basis. Their continuous monitoring facilitates more detailed information for the more effective planning of measures and operational risk management, improves the existing internal controls and enables reacting on time when necessary. In addition, internal controls on reported loss events and identified operational risks were improved in terms of increased frequency and added controls.

Also, a review of mapping of OUs by operational risks' processes was completed which enables the Bank to identify operational risks more thoroughly.

The Bank is engaged in contributing to sustainable finance by incorporating environmental, social, and governance (ESG) risks into its business strategies, risk management framework, and internal governance arrangements. With the adoption of the NLB Group Sustainability programme, the Bank implemented sustainability elements into its business model. Thus, sustainable finance integrates ESG criteria into the Bank's business and investment decisions for the lasting benefit of the Bank's clients and society. The NLB Group Sustainability Committee oversees the integration of the ESG factors to the NLB Group business model. The management of ESG risks addresses the NLB Group's overall credit approval process and related credit portfolio management. It follows ECB and EBA guidelines with a tendency of their comprehensive integration into all relevant processes. The availability of ESG data in the region where NLB Group operates is still lacking, nevertheless, the Bank strives to obtain relevant clients' data as prerequisite for adequate decision-making. In addition, the Bank carefully considers potential reputation and liability risks which could arise from sustainable financing of its clients.

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#### 3. Risk management (continued)

#### 3.1 Credit risk management

#### a) Introduction

In its operations, the Bank is exposed to credit risk, or the risk of losses due to the failure of a debtor to settle its liabilities to the Bank. For that reason, it proactively and comprehensively monitors and assesses the afore-mentioned risk with Early Warning System (EWS) for private individuals and legal entities.

The Bank manages credit risk at two levels: at the level of the individual customer/group of customers, where appropriate procedures are followed in various phases of the relationship with a customer prior to, during, and after the conclusion of an agreement. Prior to concluding an agreement, a customer's performance, financial position, and past cooperation with the Bank are assessed. It is also important to secure high quality collateral even though it does not affect a customer's credit rating. This is followed by various forms of monitoring a customer, in particular an assessment of its ability to generate sufficient cash flows for the regular settlement of its liabilities and contractual obligations.

The capital requirement for credit risk is calculated according to Decision on the methodology for determining the capital adequacy, Official Gazette 47/12, 50/13, 71/14, 223/15, 218/16, 221/18 and Official Gazette 181/19, 116/20, 167/20 и 27/24.

As regards this detection of risks, regular monitoring of clients within the Early Warning System (EWS) is important. For objectively assessing a client's operation comprehensively, internal scoring models have been developed.

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

Increasing emphasis is also placed on stress tests that forecast the effects of negative macroeconomic movements on the portfolio, on the level of impairments and provisions, and on capital adequacy.

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

The stage of financial assets determines whether a 12-month or LECL has to be considered. The ECL calculation is based on the forward-looking PD and LGD, which is calculated using historic data and statistical modelling, as well as predicted macroeconomic parameters. For the off-balance financial assets, the probability of the redemption of exposures is considered when creating collective provisions.

## 3. Risk management (continued)

### 3.1 Credit risk management (continued)

The models used to estimate future risk parameters are validated and back tested by NLB d.d. on a regular basis.

The management of ESG risks addresses the Bank's overall credit approval process and related credit portfolio management. Sustainable financing is implemented through amended documentary framework:

- Lending Policy for Non-Financial Companies in NLB Banka AD Skopje where in special Chapter Environmental and Social Framework three categories are defined (prohibited, restricted, normal activities);
- Policy Environmental and Social Transaction Framework in NLB Banka AD Skopje applies to certain transactions with greatest potential for significant environmental and social impact (exclusion list, regulatory compliance check, category A list);
- Methodology Environmental and Social Transaction Categorisation Methodology Framework in NLB Banka AD Skopje that provides a guide to the typical level of inherent environmental and social risk according to the National Classification of economic activities (NKD) codes.

Beside addressing ESG risks in all relevant stages of the credit-granting process relevant ESG criteria were considered also in the collateral evaluation process. On portfolio level the Group does not face any large concentration towards specific Nomenclature of Economic Activities (NACE) industrial sectors exposed to climate risk, whereby the role of transitional risk is more prevailing. The availability of ESG data in the region where NLB Group operates is still lacking, nevertheless the Group strives to obtain relevant clients' data as prerequisite for adequate decision-making.

#### b) Main emphasis in 2024

New disbursement was predominantly towards A and B rated clients. As of 31 December 2024, NPL (EUR 36,3 million or MKD 2,230 million) and Cost of Risk amounted -120 bps (2023: 9 bps).

The main changes in the risk parameters include introduction of LGD Floor on segment/product level and URR on segment level and (non) performing status, also taking into consideration the time in default for non-performing exposures. The LGD floor for collective impairments is also applied in the calculation of individual impairments and provision according to the segment/product.

#### c) Maximum exposure to credit risk

	31.12.2024	31.12.2023
Cash, cash balances at central banks and other demand deposits at banks	19,417,311	16,737,430
Financial assets measured at fair value through other comprehensive income	4,455,443	4,393,926
Financial assets measured at amortised cost		
- debt securities	17,734,485	13,021,336
- loans to government	670	1,027
- loans to banks	2,271,520	3,980,536
- loans to financial organisations	495,106	506,143
- loans to individuals	55,687,306	50,374,340
- loans to other customers	29,675,153	24,048,946
- other financial assets	700,764	1,683,423
Total net financial assets	130,437,758	114,747,107
Guarantees	7,787,880	7,824,710
Loan commitments	4,010,723	3,930,421
Other potential liabilities	6,713,634	6,467,923
Total contingent liabilities	18,512,237	18,223,054
Total maximum exposure to credit risk	148,949,995	132,970,161

#### 3. Risk management (continued)

## 3.1 Credit risk management (continued)

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

In the line item "Cash, cash balances at central banks, and other demand deposits at banks" is included cash in amount of MKD 3,876,921 thousands (2023: MKD 3,331,204 thousands).

#### d) Collateral from financial assets that are credit-impaired

	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
31.12.2024	Gross value of loans and advances	Net value of loans and advances	Fair value of collateral	Gross value of loans and advances	Net value of loans and advances	Fair value of collateral
Financial assets measured at amortised cost						
- loans to individuals	172,614	113,811	711,208	743,320	110,179	11,936
- loans to other customers	845,116	412,160	3,823,276	469,210	50,242	135,127
- other financial assets	764	153	86,013	42,190	2,245	2,445
Total	1,018,494	526,124	4,620,497	1,254,720	162,666	149,508

Fully/over collateralised financial assets Financial assets not or not fully covered with collatoral

31.12.2023	Gross value of loans and advances	Net value of loans and advances	Fair value of collateral	Gross value of loans and advances	Net value of loans and advances	Fair value of collateral
Financial assets measured at amortised cost						
- loans to individuals	165,207	144,003	642,997	765, 162	65,352	6,935
- loans to other customers	1,174,103	503,381	4,070,176	901,635	196,399	305,275
- other financial assets	1,994	556	173,101	40,181	4,226	1,122
Total	1,341,304	647,940	4,886,274	1,706,978	265,977	313,332

#### e) Collaterals from financial assets measured at amortised cost classified into Stage 1 and 2

	Fully/over collateralised financial assets Financial assets collateral				overed with	
31.12.2024	Gross value of loans and advances	Net value of loans and advances	Fair value of collateral	Gross value of loans and advances	Net value of loans and advances	Fair value of collateral
Financial assets measured at amortised cost						
- loans to government	-	-	-	673	670	-
- loans to banks	11,969	11,955	12,000	2,259,948	2,259,565	-
- loans to financial organisations	3,429	3,352	18,002	494,894	491,754	-
- loans to individuals	20,882,426	20,754,520	51,673,779	35,354,094	34,708,796	2,590,334
- loans to other customers	11,462,949	11,306,556	26,058,806	18,221,564	17,906,195	4,094,708
- other financial assets	735	591	28,167	699,223	697,775	118
Total	32,361,508	32,076,974	77,790,754	57,030,396	56,064,755	6,685,160

	Fully/over collateralised financial assets			Financial assets not or not fully covered with collateral		
31.12.2023	Gross value of loans and advances	Net value of loans and advances	Fair value of collateral	Gross value of Ioans and advances	Net value of loans and advances	Fair value of collateral
Financial assets measured at amortised cost						
- loans to government	-	-	-	1,032	1,027	-
- loans to banks	13,324	13,324	63,891	3,967,837	3,967,212	-
- loans to financial organisations	1,394	1,394	4,532	556,246	504,749	-
- loans to individuals	17,810,892	17,773,655	42,761,240	33,363,037	32,391,330	2,162,283
- loans to other customers	10,201,889	10,094,259	26,501,706	13,683,210	13,254,907	2,994,589
- other financial assets	687	666	59,790	1,680,296	1,677,975	-
Total	28,028,186	27,883,298	69,391,159	53,251,658	51,797,200	5,156,872

## 3. Risk management (continued)

## 3.1 Credit risk management (continued)

#### f) Credit protection policy

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

The Bank obtains valuations from in-house certified appraisers and outsourced appraisers, all possessing the necessary licences. Appraisals must be made in accordance with the international valuation standards. When assuring collateral, the Bank follows the internal regulations which define the minimum security or pledge ratios. The Bank strives to obtain collateral with a higher value than the underlying exposure (depending on the borrower's rating, loan maturity etc.) with the aim of reducing negative consequences resulting from any major swings in market prices of the assets used as collateral. If real estate, movable property, and financial instruments serve as collateral, the Bank's lien on such assets should be top ranking. Exceptionally, where the value of the mortgaged real estate is large enough, the lien can have a different priority order. The Bank monitors the value of collateral during the loan repayment period in accordance with the mandatory periods and internal instructions.

#### g) The main types of collateral taken by the Bank

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

#### h) Evaluation risk of collateral

Client/counterparty credit risk is the key decision parameter when approving exposures. Collateral is a secondary source of repayment, and therefore decisions on approvals of exposures should not primarily be based on the provided collateral.

However, collateral is an important comfort element in the approval process and, depending on the credit rating of the client, a prerequisite. The Bank has prescribed the minimum ratios between the value of collateral and the loan amount, depending on the type of collateral and the client rating. The ratios are based on experience and regulatory guidelines.

The Bank pays particular attention to closely monitoring the fair value of collateral, and to receiving regular and independent revaluations by applying the International Valuation Standards. Through a detailed examination of all collateral received, the Bank has ensured that only collateral is taken into account from which payment can be realistically expected if it is liquidated.

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

#### 3. Risk management (continued)

## 3.1 Credit risk management (continued)

i) Credit quality analysis for financial assets and contingent liabilities

31.12.2024	12-month expected credit losses	Lifetime ECL not credit - impaired	Lifetime ECL credit- impaired	Purchased credit- impaired financial assets	Total
Cash, cash balances at central banks and othe	er				
demand deposits at banks*	020.050				000 050
AB	939,950 14,607,088	-	-	-	939,950 14,607,088
C	14,007,000	-	-	-	14,007,000
D and E	-	-	-	-	-
Loss allowance	(6,647)	-	-	-	(6,647)
Carrying amount	15,540,390	-	-	-	15,540,391
*Cash in amount 3.876.920 are excluded,because		L calculation			-,
Debt securities measured at amortised cost	-				
A	5,831,847	-	-	-	5,831,847
В	11,955,727	-	-	-	11,955,727
С	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(53,089)	-	-	-	(53,089)
Carrying amount	17,734,485	-	-	-	17,734,485
Loans and advances to banks measured at amortised cost					
A	1,107,520	-	-	-	1,107,520
В	1,164,397	-	-	-	1,164,397
С	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(397)	-	-	-	(397)
Carrying amount	2,271,520	-	-	-	2,271,520
Loans and advances to customers measured a amortised cost					
A	59,482,518	75,132	-	-	59,557,650
В	23,631,208	2,020,786	-	-	25,651,994
C	46,776	1,163,609	-	-	1,210,385
D and E	-	-	2,230,260	-	2,230,260
	(873,730)	(374,456)	(1,543,868)	-	(2,792,054)
Carrying amount Other financial assets measured at amortised	82,286,772	2,885,071	686,392	-	85,858,235
cost					
A	676,560	604	-	-	677,164
В	16,517	2,778	-	-	19,295
C D and E	520	2,978	42.055	-	3,498
Loss allowance	- (1,189)	- (402)	42,955 (40,557)	-	42,955 (42,148)
Carrying amount	692,408	(402) 5,958	2,398	-	(42, 148) 700,764
Debt instruments measured at fair value	002,400	0,000	2,000		100,104
through other comprehensive income A	150 707				463 707
B	153,787 4,301,656	-	-	-	153,787
C	4,001,000	-	-	-	4,301,656
D and E	-	-	-	-	
Loss allowance	(10,501)	-	-	-	(10,501)
Contingent liabilities	( - / )				(,)
A	8,994,271	15,794	-	-	9,010,065
В	9,216,858	82,191	-	-	9,299,049
C	4,752	110,860	-	-	115,612
D and E	-	-	87,511	-	87,511
	(132,867)	(7,204)	(51,614)	-	(191,685)
Carrying amount	18,083,014	201,641	35,897	-	18,320,552

The notes are an integral part of these financial statements

Carrying amount

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

## 3. Risk management (continued)

## 3.1 Credit risk management (continued)

31.12.2023					
Cash, cash balances at central banks and other					
demand deposits at banks*					
A	902,378	238,033	-	-	1,140,411
В	12,276,415	340	-	-	12,276,755
С	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(6,047)	(27)	-	-	(6,074)
Carrying amount	13,172,746	238,346	-	-	13,411,092
*Cash in amount 2.812.623 are excluded, because are	e not subject of EC	L calculation			
Debt securities measured at amortised cost					
A	4,317,889	-	-	-	4,317,889
В	8,740,672	-	-	-	8,740,672
C	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(37,225)	-	-	-	(37,225)
Carrying amount	13,021,336	-	-	-	13,021,336
Loans and advances to banks measured at					
amortised cost					
A	2,172,816	-	-	-	2,172,816
В	1,808,345	-	-	-	1,808,345
С	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(625)	-	-	-	(625)
Carrying amount	3,980,536	-	-	-	3,980,536
Loans and advances to customers measured at amortised cost					
A	52,726,350	84,896	-	-	52,811,246
В	18,808,820	2,013,596	-	-	20,822,416
С	295,314	1,688,724	-	-	1,984,038
D and E	-	-	3,006,091	-	3,006,091
Loss allowance	(1,159,748)	(436,631)	(2,096,956)	-	(3,693,335)
Carrying amount	70,670,736	3,350,585	909,135	-	74,930,456
Other financial assets measured at amortised cost					
Α	533,608	9,334	-	-	542,942
В	1,130,003	3,245	-	-	1,133,248
С	630	4,163	-	-	4,793
D and E	-	-	42,175	-	42,175
Loss allowance	(1,804)	(538)	(37,393)	-	(39,735)
Carrying amount	1,662,437	16,204	4,782	-	1,683,423
Debt instruments measured at fair value through other comprehensive income					
A	138,104	-	-	-	138,104
В	4,255,822	-	-	-	4,255,822
С	-	-	-	-	-
D and E	-	-	-	-	-
Loss allowance	(15,639)	-	-	-	(15,639)
Contingent liabilities					
A	7,627,938	22,104	_	_	7 650 042
В		115,726	-	-	7,650,042
C	9,956,929 165,038		-	-	10,072,655
	105,056	174,008	-	-	339,046
D and E	-	-	161,311	-	161,311
Loss allowance	(205,821)	(26,561)	(94,288)	-	(326,670)

The notes are an integral part of these financial statements

17,544,084

285,277

67,023

- 17,896,384

## 3. Risk management (continued)

#### 3.1 Credit risk management (continued)

The Bank's client credit rating classification is based on NLB group rating methodology that includes a uniform credit grade scale of 12 rating classes, classes (according to internal credit rating classification – aligned with NLB group rating methodology), out of which nine represent performing clients and three non-performing clients.

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

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

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

Rating Group D (D and DF rating classes) and E represents non-performing clients that are treated as defaulted.

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

#### i) Overview of modified and forborne loans

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

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

	2024			2023		
-	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
Amortised cost of financial assets modified during the period	-	-	-	-	134,150	134,150
Net modification loss (note 16)	-	-	-	-	(14)	(14)

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

## 3. Risk management (continued)

## 3.1 Credit risk management (continued)

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

	All for	rborne exposures	;		Impairment, provisions and value adjustments		
31.12.2024	Total	Performing	Non-performing	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures	
Loans and advances (including at amortised cost and fair value)	759,208	146,906	612,302	(22,469)	(291,134)	3,506,419	
- households	73,512	29,403	44,109	(6,366)	(26,956)	262,484	
- non-financial organisations	685,696	117,503	568,193	(16,103)	(264,178)	3,243,935	
Other financial assets	76	76	-	(63)	-	11,458	
Total exposures with forbearance measures	759,284	146,982	612,302	(22,532)	(291,134)	3,517,877	

	All forborne exposures				All forborne exposures Impairment, provisions and value adjustments				
31.12.2023	Total	Performing	Non-performing	Performing forborne exposures	Non-performing forborne exposures	Collateral and financial guarantees received on forborne exposures			
Loans and advances (including at amortised cost and fair value)	1,318,748	335,401	983,347	(52,031)	(602,610)	3,846,346			
- households	101,728	37,974	63,754	(7,938)	(35,884)	202,783			
- non-financial organisations	1,217,020	297,427	919,593	(44,093)	(566,726)	3,643,563			
Other financial assets	721	-	721	-	(596)	10,467			
Total exposures with forbearance measures	1,319,469	335,401	984,068	(52,031)	(603,206)	3,856,813			

#### Forborne exposures by periods of restructuring (on a net basis)

31.12.2024	Up to 3 months	3 to 6 months	6 to 12 months	Over 12 months
Performing exposures	-	883	787	122,780
Non-performing exposures	19	181	-	320,968
Total exposures with forbearance measures	19	1,064	787	443,748
31.12.2023	Up to 3 months	3 to 6 months	6 to 12 months	Over 12 months
31.12.2023 Performing exposures	Up to 3 months 14,007	<b>3 to 6 months</b> 4,665	6 to 12 months 26,688	<b>Over 12 months</b> 238,010

#### 3. Risk management (continued)

## 3.1 Credit risk management (continued)

#### Forborne exposures by stage

31.12.2024	Gross amount of forborne loans			ECL		
—	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
- households	29,403	44,109	73,512	6,366	26,956	33,322
- non-financial organisations	117,503	568,193	685,696	16,103	264,178	280,281
Total forborne loans	146,906	612,302	759,208	22,469	291,134	313,603

31.12.2023	Gross amount of forborne loans			ECL		
—	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total
- households	37,974	63,754	101,728	7,938	35,884	43,822
- non-financial organisations	297,427	919,593	1,217,020	44,093	566,726	610,819
Total forborne loans	335,401	983,347	1,318,748	52,031	602,610	654,641

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

#### j) Analysis of loans and advances by industry sectors

		31.12.2024				31.12.2023		
Industry sector	Gross loans	Impairment provisions	Net loans	(%)	Gross loans	Impairment provisions	Net loans	(%)
Banks	2,271,917	(397)	2,271,520	2.56%	3,981,161	(625)	3,980,536	4.94%
Finance	498,323	(3,217)	495,106	0.56%	557,640	(51,498)	506,142	0.63%
Electricity, gas and water	1,588,168	(91,131)	1,497,037	1.69%	1,220,705	(166,612)	1,054,093	1.31%
Construction industry	3,930,843	(212,848)	3,717,995	4.19%	3,358,754	(309,299)	3,049,455	3.78%
Heavyindustry	9,369,243	(398,810)	8,970,433	10.10%	7,732,507	(321,274)	7,411,233	9.20%
Education	10,129	(252)	9,877	0.01%	51,349	(18,656)	32,693	0.04%
Agriculture, forestry and fishing	783,135	(22,519)	760,616	0.86%	621,403	(16,456)	604,947	0.75%
Public sector	673	(3)	669	0.00%	1,032	(6)	1,026	0.00%
Individuals	57,152,454	(1,465,147)	55,687,307	62.69%	52,104,281	(1,729,939)	50,374,342	62.50%
Mining	58,865	(3,416)	55,449	0.06%	61,898	(13,374)	48,524	0.06%
Entrepreneurs	-	-	-	-	-	-	-	0.00%
Services	2,759,628	(239,089)	2,520,540	2.84%	3,127,753	(373,229)	2,754,524	3.42%
Transport and communications	2,520,959	(99,103)	2,421,856	2.73%	2,172,863	(112,849)	2,060,014	2.56%
Trade industry	9,839,877	(248,633)	9,591,244	10.80%	7,450,187	(572,995)	6,877,192	8.53%
Health care and social security	137,992	(7,886)	130,106	0.15%	163,419	(7,148)	156,271	0.19%
Other financial assets	742,912	(42,148)	700,764	0.79%	1,723,158	(39,735)	1,683,423	2.09%
Total	91,665,118	(2,834,599)	88,830,519	100.00%	84,328,110	(3,733,695)	80,594,415	100.00%

#### k) Analysis of loans and advances by geographical sectors

Country	31.12.2024	31.12.2023
Republic of North Macedonia	86,363,264	76,462,163
European Union members	2,279,458	2,805,989
Other countries	187,797	1,326,263
Total	88,830,519	80,594,415

The item "Other countries" mainly includes exposure to Republic of Serbia and United States of America.

## 3. Risk management (continued)

#### 3.1 Credit risk management (continued)

#### 3.1.1 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills. For 2024 issuers of the investment securities are the National Bank of the Republic of North Macedonia, Republic of North Macedonia, Federal Republic of Germany, Kingdom of the Netherlands, Kingdom of Belgium, Republic of Austria, and United States of America.

An analysis of debt instruments, treasury bills and other type of investment bills is shown in notes 21 and 23. Standard & Poor's Ratings Services assigned Republic of Macedonia's sovereign foreign and local currency long/short term ratings of "BB-/B" with stable outlook and Fitch's Ratings Agency assigned its sovereign foreign and local currency long term rating of "BB+" with stable outlook and foreign and local currency short term rating of "B" with stable outlook.

31.12.2024	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
National Bank of Republic of North Macedonia	1,591,200	-	1,591,200
Republic of North Macedonia	2,694,805	11,955,727	14,650,532
EU members			
- Federal Republic of Germany	-	1,473,487	1,473,487
- Kingdom of the Netherlands	-	1,472,409	1,472,409
- Kingdom of Belgium	-	428,352	428,352
- Republic of Austria	-	399,012	399,012
United States of America	-	2,058,587	2,058,587
Total	4,286,005	17,787,574	22,073,579

31.12.2023	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
National Bank of Republic of	1,603,267	_	1,603,267
North Macedonia			, ,
Republic of North Macedonia	2,647,677	8,740,673	11,388,350
EU members			-
- Federal Republic of Germany	-	1,164,780	1,164,780
- Kingdom of the Netherlands	-	858,509	858,509
- Kingdom of Belgium	-	550,177	550,177
- Republic of Slovenia	-	413,367	413,367
United States of America	-	1,331,055	1,331,055
Total	4,250,944	13,058,561	17,309,505

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## 3. Risk management (continued)

## 3.1 Credit risk management (continued)

#### 3.1.2 Foreclosed collateral

During 2024 and 2023, the Bank obtained assets by taking possession of collateral held as security, as follows:

	Carrying amount			
Nature of assets	2024	2023		
Land	3,256	3,269		
Buildings	53,116	48,597		
Equipment	32	101		
Other	31	125		
Total (note 28)	56,435	52,092		

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

#### 3.1.3 Presentation of net financial instruments by measurement category

31.12.2024	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
Cash and obligatory reserves with			
central banks and other demand	-	19,417,311	19,417,311
deposits at banks			
Securities	4,455,443	17,734,485	22,189,928
- bonds	2,694,805	11,902,837	14,597,642
- shares	169,438	-	169,438
- bills	1,591,200	5,831,648	7,422,848
Loans and receivables	-	88,129,755	88,129,755
- loans to government	-	670	670
- loans to banks	-	2,271,520	2,271,520
- loans to financial organization	-	495,106	495,106
- loans to individuals	-	55,687,306	55,687,306
- loans to other customers	-	29,675,153	29,675,153
Other financial assets	-	700,764	700,764
Total financial assets	4,455,443	125,982,315	130,437,758

## 3. Risk management (continued)

#### 3.1 Credit risk management (continued)

31.12.2023	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Total
Cash and obligatory reserves with			
central banks and other demand	-	16,737,430	16,737,430
deposits at banks			
Securities	4,393,926	13,021,336	17,415,262
- bonds	2,647,677	9,150,499	11,798,176
- shares	142,982	-	142,982
- bills	1,603,267	3,870,837	5,474,104
Loans and receivables	-	78,910,992	78,910,992
- loans to government	-	1,027	1,027
- loans to banks	-	3,980,536	3,980,536
- loans to financial organization	-	506,143	506,143
- loans to individuals	-	50,374,340	50,374,340
- loans to other customers	-	24,048,946	24,048,946
Other financial assets	-	1,683,423	1,683,423
Total financial assets	4,393,926	110,353,181	114,747,107

#### 3.2 Market risk

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

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

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

In the area of currency risk, the Bank pursues the goal of low to medium exposure. The Bank monitors its foreign exchange open position on an ongoing basis. The orientation of the Bank in interest rate risk management is to prevent negative effects on the net revenues arising from changed market interest rates. The conclusion of transactions involving derivatives is limited to the servicing of the

## 3. Risk management (continued)

## 3.2 Market risk (continued)

clients' and hedging of the Bank's own open positions. In accordance with the guidelines from NLB d.d., the Bank does not have a trading book.

The capital requirement for market risk is calculated according to Decision on the methodology for determining the capital adequacy (Official Gazette of the Republic of North Macedonia No. 47/12, 50/13, 71/14, 223/15, 218/16 and 221/18 and Official Gazette of the Republic of North Macedonia No. 181/19, 116/20, 167/20 and 27/24).

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

## 3.2.1 Foreign exchange risk

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

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

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

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#### 3. Risk management (continued)

## 3.2.1 Foreign exchange risk (continued)

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

31.12.2024						
	EUR	USD	CHF	MKD	OTHER	Total
– Financial assets						
Cash, cash balances at central bank and demand deposits at banks	7,808,757	344,069	1,264,569	9,786,854	213,062	19,417,311
Financial assets measured at fair value through other comprehensive income	2,697,771	118,676	-	1,638,996	-	4,455,443
Financial assets measured at amortised cost	-	-	-	-	-	-
- debt securities	4,727,470	2,058,549	-	10,948,466	-	17,734,485
- loans and advances to banks	314	1,443,648	391,035	11,999	424,524	2,271,520
- loans and advances to customers	29,163,596	196,959	3,724	56,483,693	10,263	85,858,235
- other financial assets	314,043	846	81	385,753	41	700,764
Total financial assets	44,711,951	4,162,747	1,659,409	79,255,761	647,890	130,437,758
Financial liabilities	-	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss	-	-	-	51,420	-	51,420
Financial liabilities measured at amortised cost						
- deposits from banks	230,929	27,532	31,036	59,465	42,347	391,309
- deposits from customers	38,603,665	4,277,879	1,404,404	61,849,134	645,419	106,780,501
- other borrow ed funds	2,268,266	-	-	-	-	2,268,266
- subordinated liabilities	1,534,426	-	-	-	-	1,534,426
- other financial liabilities	570,200	85,249	130,623	462,354	13,515	1,261,941
Total financial liabilities	43,207,486	4,390,660	1,566,063	62,422,373	701,281	112,287,863
Net financial position	1,504,465	(227,913)	93,346	16,833,388	(53,391)	18,149,895
31.12.2023						
Total financial assets	41,871,140	4,217,051	2,174,671	65,779,938	704,307	114,747,107
Total financial liabilities	40,868,403	4,232,727	1,507,597	51,778,292	837,503	99,224,522
Net financial position	1,002,737	(15,676)	667,074	14,001,646	(133,196)	15,522,585

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#### 3. Risk management (continued)

- 3.2 Market risk (continued)
- 3.2.1 Foreign exchange risk (continued)

## b) FX sensitivity analysis

	31.12.2024	31.12.2023
AUD	+/- 6.0%	+/- 4.5%
CAD	+/- 3.0%	+/- 4.0%
CHF	+/- 4.5%	+/- 4.0%
DKK	+/- 0.5%	+/- 0.5%
EUR	+/- 0.5%	+/- 0.5%
GBP	+/- 2.5%	+/- 4.0%
JPY	+/- 10.5%	+/- 6.0%
NOK	+/- 6.5%	+/- 6.0%
SEK	+/- 5.0%	+/- 4.5%
USD	+/- 4.0%	+/- 4.5%
Other	+/- 10.5%	+/- 6.0%

\* Sensitivity percentages for scenarios are taken as the highest monthly volatility of exchange rate in one year, respectively for 2024 and 2023.

## 3. Risk management (continued)

3.2 Market risk (continued)

3.2.1 Foreign exchange risk (continued)

	31.12.2024		31.12.2023	
	Effects on income statement	Effects on other comprehe nsive income	Effects on income statement	Effects on other comprehensive income
Apreciation of				
AUD	(71)	-	18	-
CAD	62	-	420	-
CHF	886	-	2,756	-
DKK	(3)	-	7	-
EUR	(3,589)	(13,474)	(281)	(13,238)
GBP	(1)	-	(170)	-
JPY	61	-	12	-
NOK	(26)	-	(35)	-
SEK	46	-	(32)	-
USD	343	-	438	-
Other	(77)	-	(131)	-
Effects on comprehensive income	(2,369)	(13,474)	3,002	(13,238)
Depreciation of				
AUD	71	-	(18)	-
CAD	(62)	-	(420)	-
CHF	(886)	-	(2,756)	-
DKK	3	-	(7)	-
EUR	3,589	13,474	281	13,238
GBP	1	-	170	-
JPY	(61)	-	(12)	-
NOK	26	-	35	-
SEK	(46)	-	32	-
USD	(343)	-	(438)	-
Other	77	-	131	-
Effects on comprehensive income	2,369	13,474	(3,002)	13,238

# 3. Risk management (continued)

3.2 Market risk (continued)

# 3.2.2 Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interestearning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in different amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the Central Bank bills interest rate, the savings rate, EURIBOR and different types of interest.

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

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

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

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

- economic value sensitivity (EVE) using BPV method (Basis Point Value), which measures the extent to which the value of the portfolio would change if interest rates changed according to the scenario and
- sensitivity of net interest income (NII) –, which measures the impact of the interest rate change on future net interest income over a one-year period, assuming constant balance sheet volume and structure. In addition to NII, in the second half of the year, EaR (Earnings at Risk) was introduced as additional measure. Earnings sensitivity measures not only the potential loss of NII but also the effects of market value changes of instruments (depending on accounting treatment), either shown in the profit and loss account or directly in equity (e.g. via other comprehensive income).

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

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

# 3. Risk management (continued)

3.2 Market risk (continued)

# 3.2.2 Interest rate risk (continued)

Interest rate risk exposure arises mainly from banking book positions; particularly in a interest rate environment with rising floating interest rates (both EURIBOR and domestic floating rates) during the first half of the year, where the Bank noted increased volume of consumer loans with floating interest rate loans, as well as housing loans with combined (fixed and floating) interest rate (while decreasing adjustable interest rate loans, due to past implementation of NBRNM recommendation for excluding the adjustable interest rates in the new loan and deposit contracts), short-term banking book securities and movement to maturity of long-term banking book securities on the assets side, while on liabilities side sight deposits are still with the largest share. In the second half of the year, mild decrease in variable interest rates (EURIBOR) is noted, while domestic interest rates, with NRKS reference rate, still noted growth. In these new conditions, the Bank started to offer consumer loans with fixed interest rate, while housing loans remain with combined interest rate. On the liabilities side, the Bank noted growth of term deposits, due to more interest – favourable Bank' offer. The Bank continued to invest in new short to mid term securities (US, German and Dutch government bills) throughout the year, with higher yields than long term investments, reflecting the world economy interest rate policy affected by inflation.

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

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

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

Analysis of the financial assets and liabilities of the Bank into relevant maturity groups based on the remaining period to the next date, at which interest rates may be changed. Cash flows are presented by taking into account their contractual maturity and according to the amortization schedule (based on the remaining period to the next date at which interest rates may be changed). Financial instruments without maturity such as sight deposits are presented in gap up to 1 month, while financial instruments with expired maturity such as non-performing loans are presented as gap non-interest bearing, irrespective of their behavioral characteristics and the Bank's expectations. For the purpose of risk management, the Bank uses different cash flows modelling techniques. The following table presents open net interest rate risk positions by the most important currencies of the Bank.

The gap up to 3 years includes non-interest bearing and interest-bearing gaps from up to 1 month till 3 years gap.

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#### 3. Risk management (continued)

3.2 Market risk (continued)

3.2.2 Interest rate risk (continued)

#### 31.12.2024

Currency	Up to 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
MKD	7,191,707	6,175,986	2,764,438	701,168	16,833,299
EUR	(12,663,036)	2,884,620	9,733,280	1,549,603	1,504,465
CHF	92,720	626	-	-	93,346
USD	(240,213)	4,226	4,569	3,505	(227,913)
Other	(54,274)	828	55	-	(53,391)

#### 31.12.2023

Currency	Up to 3 years	3 - 5 years	5 - 10 years	Over 10 years	Total
MKD	11,651,488	1,253,103	416,055	681,000	14,001,646
EUR	(11,642,210)	3,667,554	7,748,121	1,229,272	1,002,737
CHF	667,014	60	-	-	667,074
USD	(28,504)	4,026	4,763	4,039	(15,676)
Other	(135,975)	752	1,549	478	(133,196)

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

The analysis of interest income sensitivity for the horizon of the next 12 months assumes sudden parallel shock down in interest rates by 100 basis points for MKD, EUR, OTHER (including USD, CHF, and other significant currencies). Starting from 30.09.2024 the interest income sensitivity for the horizon of the next 12 months assumes sudden parallel shock down in interest rates by 50 basis points for EUR and 100 basis points for the other currencies. The analysis is based on the assumption that the positions used remain unchanged. The assessment of the impact of a change in interest rates of 50 basis points EUR/100 basis points OTHER on the amount of net interest income of the banking book position:

# 3. Risk management (continued)

- 3.2 Market risk (continued)
- 3.2.2 Interest rate risk (continued)

2024	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity			
MKD	311,697	239,843	392,813
EUR	8,016	682	22,076
OTHER	38,408	21,849	50,053
2023	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest income sensitivity			
MKD	244,075	121,451	391,353
EUR	8,132	(2,811)	17,890
OTHER	39,688	33,027	45,122

The values in the table are calculated based on monthly calculations of short-term interest rate gaps, where the applied parallel shift of the yield curve represents a realistic and practical scenario. The "average" value represents the arithmetic mean of monthly calculations, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The negative values for currencies represent positive effect of a change in interest rates by 100 basis points and 50 basis points EUR/100 bp other from 30.09.2024 onwards on the amount of net interest income.

The BPV (Basis Point Value) method is a measure of sensitivity of financial instruments to market interest rates, i.e., changes of the required return. The BPV is the measurement of the change in the market value of all maturities position in the case of an assumed change in market interest rates by a certain number of basis points, which is expressed in monetary units. BPV calculates the effect of changes in interest rates on the economic value of banking book assets, liabilities and off-balance sheet items and represents the present value of net future cash flows and provides a comprehensive view of the possible long-term effects of changing interest rates The BPV method is used to assess the change in the value of a position in case market interest rates change given the six prescribed parallel and non-parallel shock scenarios.

Interest rate shock scenarios used by NLB Banka Skopje for capturing parallel and non-parallel GAP risks are:

- Supervisory standard shock parallel change in interest rate of +/- 200 basis points;
- Parallel (along the YC) shock up parallel increase in interest rate of 400 basis points for MKD currency and 200 basis points for EUR and all other currencies;
- Parallel (along the Yield Curve (YC) shock down parallel decrease in interest rate of 400 basis points for MKD currency and 200 basis points for EUR and all other currencies;
- Steepener shock (short rates down and long rates up);
- Flattener shock (short rates up and long rates down);
- Short rates shock up;
- Short rates shock down;

# 3. Risk management (continued)

3.2 Market risk (continued)

#### 3.2.2 Interest rate risk (continued)

During the year the highest negative effect on the value of BPV moves across the listed scenarios.

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

2024	Average	Minimum	Maximum
2024	(assessment)	(assessment)	(assessment)
Interest rate risk in banking book - BPV	352,036	92,521	694,018
Interest rate risk in banking book - BPV, as % of equity	2.39%	0.64%	4.79%

2023	Average (assessment)	Minimum (assessment)	Maximum (assessment)
Interest rate risk in banking book - BPV	375,838	172,486	739,411
Interest rate risk in banking book - BPV, as % of equity	2.81%	1.27%	5.48%

The values in the table have been calculated based on monthly calculations of BPV during the year, including most negative scenarios from the above list of scenarios. The scenario with highest negative effect on the value of BPV ratio (during 2024 sifted among Short IR down, Flattener shock and Parallel decrease and increase by 200 basis points/400 basis points for MKD). In order to present better overview of the movement of BPV during the year, the table includes average, minimum, and maximum of effects in amount, as percentage of equity. The "average" value represents the arithmetic mean, while the "maximum" and "minimum" values represent the highest and lowest values calculated during the period. The calculation takes into the account allocation of the core part of non-maturing deposits and other behavioural assumptions.

Exposure to interest rate risk of the banking book mainly arises from investments in loans with fixed and floating interest rates and short-term and long-term debt securities, as well as from sight deposits which have largest share on liabilities side and term deposits which note growth in 2024.

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

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

In terms of equity security investments, the Bank has adopted policies for managing these investments that were approved by the Management and the Supervisory Board. The policies relate to the investment structure of the portfolio, its diversification, and the monitoring and measurement of risks. The carrying value of the equities' portfolio in the banking book of the Bank is presented in note 21.

# 3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. It represents the risk that the Bank is unable to meet all of its actual and potential payments or collateral posting

# 3. Risk management (continued)

# 3.3 Liquidity risk (continued)

obligations, as well as the risk of loss that arises when the Bank is unable to fund the growth of assets at reasonable prices, or only at excessive cost. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

There are two types of liquidity risk:

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

Liquidity risk is defined as an important risk type, which has to be managed carefully. The Bank has a liquidity risk management framework in place that enables maintaining a low risk tolerance for liquidity risk. A set of liquidity risk metrics and limits are formulated in order to manage liquidity position within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding and holding a solid liquidity buffer, the Bank maintains a sound and robust liquidity position, even under severely adverse conditions.

The Supervisory Board approves the Liquidity Risk Management Policy, which outlines the key principles for the Bank's liquidity management. ALCO receives a regular report on the liquidity position and the performance against approved limits and targets. ALCO oversees the development of the Bank's funding and liquidity position and decides on liquidity risk-related issues.

Risk tolerance for liquidity risk is low, therefore the Bank maintains an adequate level of liquidity to provide sufficient funds for settling its liabilities at all times, even if a specific stress scenario is realised. The Bank measures and manages its liquidity in three stages:

- current exposure and compliance with the limits;
- forward-looking and stress testing;
- liquidity in exceptional circumstances.

The objectives of monitoring and managing liquidity risk in the Bank are as follows:

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

According to guidelines from the parent company NLB d.d., overall assessment of the liquidity position is assessed in the ILAAP at least once per year. It includes a clear formal statement on liquidity adequacy, supported by an analysis of ILAAP outcomes. The Bank maintains a sufficient amount of liquidity reserves in the form of cash, securities issued by the domestic and foreign government and NBRNM and placements in banks. In the current situation, the Bank also strives to follow as closely as possible the long-term trend of diversification on both the liability and asset sides of the balance sheet. The Bank regularly performs stress - tests with the aim of testing the liquidity stability and the availability of liquidity reserves in various stress situations. To ensure that scenarios are conservative enough the Bank performs adverse and extreme scenarios. The limits are based on a combined scenario, which includes both liabilities-side and assets-side scenarios.

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# 3. Risk management (continued)

# 3.3 Liquidity risk (continued)

The scenarios are conservative as they assume massive outflows, which create a huge impact on liquidity position, and severe deterioration of the markets

The methodology for stress testing liquidity risk consists of:

• business view scenario, which presents future cashflows according to business plans and budget (under expected circumstances),

• four stress test scenarios: liabilities-side scenario, asset-side scenario, combined scenario (combination of both asset-side and liabilities-side scenarios), local scenario (tailored to a local banking sector),

• reverse stress test, which provides additional insight into the risk position of the bank as well as potential future management actions.

During the 2024 the Bank strengthened the stress test scenario, which is now more conservative.

Beginning 31 March 2021, NLB d.d. prepares for the Bank liquidity reverse stress test. Reverse stress testing provides additional insight into the risk position of the Bank as well as potential future management actions. The results show how many outflows would have to occur and when so that the Bank no longer survives the stress.

The reverse stress test concept is based on the linear increase of the outflow rates until the 3 months surplus falls below 0; at that point, the Bank no longer has sufficient liquidity reserves to survive 3 months stress period.

Reverse stress test is based on adverse combined scenario. In reverse stress test all outflow rates are increased linearly until the 3 months liquidity surplus falls below 0 (maximum outflow rate for each item is set to 100%). At that point, the Bank no longer has sufficient liquidity reserves and inflows to survive 3 months stress period. Run-off rates for reverse stress test are calculated for 1 week, 1 month, 2 months and 3 months period. The results show how many outflows would have to occur and when so that the Bank no longer survives the stress (severity and duration test).

In addition, special attention is given to the monitoring and reporting of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), prepared according to guidelines from NLB d.d.

LCR remains high and stable, well above minimum requirements and internal warning levels (215%). Internal: min 130%, Amber ≤120%, Red: ≤110%. According to the LCR composition, the main drivers resulting in high LCR are:

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

NSFR ratio was within the prescribed warning levels and had stable trend in the given market environment (159%). NSFR demonstrates strong and stable funding structure.

The main drivers resulting in high NSFR:

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

The liquidity risk management also includes preparing additional reports according to the requirements of the local regulator. According to local regulation, the Bank prepared ILAAP in 2024.

# 3. Risk management (continued)

# 3.3 Liquidity risk (continued)

During 2024, the Bank regularly determined the Liquidity Coverage Ratio (LCR), which is within the legally established limit, ie above it.

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

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

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

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

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

In Liquidity risk management policy, the Bank establish Key risk drivers which affect the liquidity and funding risk in the Bank. Key risk drivers for liquidity position are the factors that are expected to cause a significant deterioration in the liquidity position of the Bank. C&E risk drivers comprise external events (floods, droughts, hail, storms, environmental taxation and subsidies, behavioural changes of consumers, suppliers, employees, and investors ...) that could trigger higher outflows of deposits which impacts liability-side of the balance sheet.

On monthly level the Bank monitor deposit base of individuals and legal entities by region. For every region are defined physical risks and their risk level. With corporate industry segmentation the Bank follows the industries and how risky is a certain business activity now from the environmental perspective and from that it can be assumed which activities/industry could be exposed to a higher transition risk.

#### Managing liquidity reserves

The Bank has liquidity reserves available to cover liabilities that fall or may become due. Liquidity reserves must become available on short notice. Liquidity reserves comprise cash, the settlement account at the NBRNM, sight deposits and term deposits at banks, securities issued by the government and the NBRNM and foreign sovereign securities. Available liquidity reserves are liquidity reserves decreased by the obligatory reserve requirements and encumbered assets. Encumbered assets are restricted demand deposits in amount of MKD 188,277 thousand (2023: MKD 591,748 thousands) and refer to Reserve Guarantee Fund in KIBS, Guarantee Fund in Central Securities Depository, Restricted deposit for VISA transactions and Brokerage capital.

# 3. Risk management (continued)

# 3.3 Liquidity risk (continued)

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

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

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

# 3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by Risk, Evaluation and Control Division\_and the Financial Market and Treasury Division, includes:

- determination of internal liquidity ratios and their regular calculation and monitoring;
- definition of the limits and warning levels of individual selected internal liquidity ratios;
- monitoring trends in the selected internal liquidity ratios;
- calculating liquidity score;
- preparation of cash flow plan by remaining maturity;
- monitoring daily data;
- daily monitoring of the LCR;
- monitoring early withdrawals of deposits;
- monthly calculation of LCR and NSFR liquidity ratios;
- monitoring asset encumbrance;
- performing scenarios to see how would a sudden and unexpected realisation of outflows influence liquidity ratios: LCR and NSFR;
- preparation of intraday liquidity stress tests;
- monitoring the stability of sight deposits;
- monitoring the stability of term deposits;
- preparation of liquidity risk stress tests and liquidity projections of future cash flows according to the budget and under stressed circumstances.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Risk, Evaluation and Control Division also monitors unmatched medium-term assets, the level type and the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

# 3.3.2 Funding approach

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

# 3. Risk management (continued)

#### 3.3 Liquidity risk (continued)

#### 3.3.3 Non-derivative cash flows

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

31.12.2024	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Financial liabilities and credit-</b> <b>related commitments</b> Financial liabilities measured at fair value through profit or loss	-	-	13,030	29,912	8,478	51,420
Financial liabilities measured at amoritsed cost	-	-	-	-	-	-
- deposits from banks	391,309	-	-	-	-	391,309
- borrowings from banks	108,146	69,175	438,642	1,218,032	519,951	2,353,946
- deposits from customers	84,935,968	1,032,395	8,120,535	13,547,764	-	107,636,662
- borrowings from other customers	538	451	1,408	1,381	-	3,778
- subordinated liabilities	-	-	121,526	515,855	1,923,411	2,560,792
- other financial liabilities	885,104	32	67,430	16,555	52,429	1,021,550
- lease liabilities	17,977	12,278	53,809	148,787	7,540	240,391
Credit risk related commitments	5,648,769	-	-	-	-	5,648,769
Non-financial guarantees	85,369	167,248	862,103	739,268	610,650	2,464,638
Total	92,073,180	1,281,579	9,678,483	16,217,554	3,122,459	122,373,255
Total financial assets	30,148,360	8,196,719	21,726,126	41,470,355	28,896,198	130,437,758

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# 3. Risk management (continued)

3.3 Liquidity risk (continued)

31.12.2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Financial liabilities and credit- related commitments Financial liabilities measured at fair value through profit or loss Financial liabilities measured at amoritsed cost	-	-	-	22,021	6,956	28,977
- deposits from banks	395,293	-	-	-	-	395,293
- borrowings from banks	76,943	74,976	486,302	1,575,798	667,078	2,881,097
- deposits from customers	75,522,816	1,294,779	6,243,896	9,927,184	-	92,988,675
- borrowings from other customers	810	720	2,291	2,119	-	5,940
- subordinated liabilities	-	-	182,521	1,270,753	1,793,352	3,246,626
- other financial liabilities	1,247,053	151	104,586	12,450	40,787	1,405,027
- lease liabilities	18,619	9,876	36,505	86,566	11,471	163,037
Credit risk related commitments	5,389,508	-	-	-	-	5,389,508
Non-financial guarantees	106,210	72,684	683,440	800,934	595,735	2,259,003
Total	82,757,252	1,453,186	7,739,541	13,697,825	3,115,379	108,763,183
Total financial assets	27,478,622	8,036,831	17,795,621	35,402,974	26,033,059	114,747,107

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# 3. Risk management (continued)

# 3.3 Liquidity risk (continued)

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

31.12.2024	Within 12 months	After 12 months	Total
Assets			
Cash, cash balances at central bank and demand deposits at banks	19,417,311	-	19,417,311
Financial assets measured at fair value through other comprehensive income	2,772,920	1,682,523	4,455,443
Financial assets measured at amortised cost			
- debt securities	8,686,843	9,047,642	17,734,485
- loans and advances to banks	2,271,476	44	2,271,520
- loans and advances to customers	26,249,681	59,608,554	85,858,235
- other financial assets	672,973	27,791	700,764
Foreclosed collateral	56,435	-	56,435
Investment in associates (accounted for using the equity	-	45,168	45,168
Investment property	-	91,851	91,851
Property, equipment and right-of-use assets	-	2,017,454	2,017,454
Intangible assets	-	171,352	171,352
Current income tax assets	-	-	-
Other assets	88,675	-	88,675
Total assets	60,216,314	72,692,379	132,908,693
Liabilities			
Financial liabilities measured at fair value through			
profit or loss	13,030	38,390	51,420
Financial liabilities measured at amortised cost			
- deposits from banks	391,309	-	391,309
- deposits from customers	93,856,860	12,923,641	106,780,501
- other borrowed funds	584,632	1,683,634	2,268,266
- subordinated liabilities	883	1,533,543	1,534,426
- other financial liabilities	1,036,630	225,311	1,261,941
Provisions	127,188	112,008	239,196
Current income tax liabilities	68,655	134,544	203,199
Deferred income tax liabilities	-	148,414	148,414
Other liabilities	182,058	-	182,058
Total liabilities	96,261,245	16,799,485	113,060,730
NET	(36,044,931)	55,892,894	19,847,963

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#### 3. Risk management (continued)

# 3.3 Liquidity risk (continued)

# 3.3.4 An analysis of the statement of financial position by residual maturity (continued)

31.12.2023	Within 12 months	After 12 months	Total
Assets			
Cash, cash balances at central bank and demand deposits at banks	16,737,430	-	16,737,430
Financial assets measured at fair value through other comprehensive income	1,665,499	2,728,427	4,393,926
Financial assets measured at amortised cost			-
- debt securities	7,677,032	5,344,304	13,021,336
- loans and advances to banks	3,980,152	384	3,980,536
- loans and advances to customers	21,589,109	53,341,347	74,930,456
- other financial assets	1,661,837	21,586	1,683,423
Foreclosed collateral	52,092	-	52,092
Investment properties	-	45,621	45,621
Property, equipment and right-of-use assets	-	91,851	91,851
Intangible assets	-	1,942,483	1,942,483
Current income tax assets	-	226,498	226,498
Other assets	74,272	-	74,272
Total assets	53,437,423	63,742,501	117,179,924
Liabilities			
Financial liabilities measured at fair value through profit or loss	-	28,977	28,977
Financial liabilities measured at amortised cost			
- deposits from banks	395,293	-	395,293
- deposits from customers	82,913,854	9,472,322	92,386,176
- other borrowed funds	598,652	2,158,755	2,757,407
- subordinated liabilities	1,808	2,086,797	2,088,605
- other financial liabilities	1,416,790	151,274	1,568,064
Provisions	248,517	144,061	392,578
Current income tax liabilities	99,670	-	99,670
Deferred income tax liabilities	-	53,733	53,733
Other liabilities	179,193	-	179,193
Total liabilities	85,853,777	14,095,919	99,949,696
NET	(32,416,354)	49,646,582	17,230,228

# Risk management (continued) Management of non-financial risks 4.1 Operational risk

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

The Bank monitors the operational limit of net loss expressed as a value, arising from realized loss events which the Bank tolerates in its operations. The limit is set at the level of the Bank and at the business line level. If the sum of net loss exceeds the tolerance limit, a special treatment of major loss events is required and, if necessary, takes additional measures for the prevention or mitigation of the same or similar loss events. The critical limit of loss events is also defined, which in case of exceeding requires an assessment of the possible increase in the capital requirement for operational risk within ICAAP and other possible risk management measures. In addition, the Bank does not allow certain risks in its business – for them a so-called zero tolerance was defined. The Bank has defined tolerance limit for the operational risk arising from an operational and security incident related to payment services, which means that in the course of its operations the Bank allows or accepts security and operational risks from payment services, the implementation of which will not have a material impact on the business result and will not significantly harm the Bank's reputation.

From that aspect, tolerance limit for an operational and security incident from payment services is defined so that the net losses from electronic banking, card and funds transfer processes reported in the current year.

For monitoring some specific more important key risk indicators, that could show a possible increase of an operational risk, the Bank developed an early warning system. In order to monitor certain important risks that could indicate an increased operational risk as an early warning indicator, the Bank developed a specific Methodology for monitoring key risk indicators . Such risks are periodically monitored in different business areas, and the results are discussed at the Operational Risk Committee. The latter was named as the highest authority in the area of operational risk management. The main task of the aforementioned body is to discuss the most significant operational risks and loss events, and to monitor and support the effective management of operational risks including their mitigation within an individual entity. The Bank has adopted relevant documents that are in line with NLB standards and with the development of operational risk management and regularly updated. The Bank uses uniform software support, which is also regularly upgraded.

In the Bank, the reported incurred net loss arising from loss events in 2024 was lower than last year, and represents small part of the capital requirement for operational risk. In general, considerable attention is paid to reporting loss events, their mitigation measures and defining operational risks in all segments. To treat major loss events appropriately and as soon as possible, the Bank introduced an escalation scale for reporting loss events to the top levels of decision-making at the Bank and the Supervisory Board of the Bank. Additional attention is paid to the reporting of potential loss events in order to improve the internal controls, and thus minimise those and similar events. Furthermore, the methodology to monitor, analyse and report key risk indicators is established, servicing as an early warning system. The aim is to improve business and supporting processes, as well enabling prompt response.

# 3. Risk management (continued)

3.4 Management of non-financial risks (continued)

# 3.4.1 Operational risk (continued)

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

The Bank also performs yearly risk assessment of outsourcing providers. Outsourcing means an arrangement of any form between the Bank and a service provider by which that service provider performs a process, a service or an activity that would otherwise be undertaken by the Bank.

The Bank has a holistic institution-wide risk management framework extending across all business lines and internal units and the framework should include identifications, assessment and management of risks resulting from arrangements with third parties to which they are or might be exposed, so that the decisions on outsourcing are based on a quality information and that the measures are implemented to manage these risks. The correct risk assessment and implementation of critical risk management measures is the basis for the successful and efficient implementation of the Bank's activities.

The capital requirement for operational risk in the Bank is calculated using the standardized approach, meaning that achieved financial results are divided into eight business lines.

# 3.4.2 Business Continuity Management (BCM)

A comprehensive process for Business Continuity Management has been established in the Bank, which enables the organization to identify potential threats and sets conditions for stable business processes.

Business Continuity Plan or BCR is a documented collection of data, instructions, processes and tasks that the bank prepares and produces for immediate application in case of a crisis situation.

According to the annual plan, an analysis of business continuity management risks for 2024 was made, where scenarios for business continuity plans were revised. Annual testing of the IT back-up location in Negotino has been successfully completed and the annual Business Impact Analysis (BIA) has been initiated.

Know-how and methodologies have been transferred from NLB d.d. for which appropriate documents have been adopted that are in accordance with the standards of NLB d.d. and revised in accordance with the development of business continuity management.

For more efficient functioning of the business continuity management system, trainings and visits by NLB d.d. are provided every year. In 2024, NLB d.d. conducted a workshop for the main coordinators of business continuity plans.

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

Risks that are not included in the calculation of capital requirements by the regulatory approach but have or might have an important influence on the Bank's risk profile, are regularly assessed, monitored, and managed. In addition, they are integrated into ICAAP.

# 3. Risk management (continued)

# 3.4 Management of non-financial risks (continued)

The Bank established internal methodologies for identifying and assessing specific types of risk, referring to the Bank's business model or arising from other external circumstances. If a certain risk is assessed as a materially important risk, relevant disposable preventive and mitigation measures are applied, including regular monitoring of their effectiveness. On this basis internal capital requirements, as a part of ICAAP process, are also considered.

# 3.4.4 Off-balance sheet items

#### a) Guarantees, letters of credit and limits

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

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

	2024	2023
Guarantees		
- in MKD currency	6,018,427	6,057,331
- in foreign currency	1,769,453	1,767,379
Letters of credit		
- in foreign currency	1,639,688	1,490,363
Limits on cheques and cards	4,010,723	3,930,421
Other potentional liabilities	5,073,946	4,977,560
Total	18,512,237	18,223,054
Less: Provisions (note 42)	(191,685)	(326,670)
Total	18,320,552	17,896,384

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

The line item "Other potential liabilities" as of 31.12.2024 include exposure for Commitments to lend with low risk (revocable limit) in Risk portfolio in amount of MKD 5,07 million (2023: MKD 4,98 million).

#### b) Analysis of derivative financial instruments by notional amounts

	2024		20	023
	Assets	Liabilities	Assets	Liabilities
Other risk management derivatives	6,078	-	1,931	2,875
Total	6,078	-	1,931	2,875

The derivative financial instruments presented in the table above are short-term. The net gains/losses from derivatives financial instruments are disclosed in note 7.

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# 3. Risk management (continued)

3.4 Management of non-financial risks (continued)

# 3.4.4 Off-balance sheet items (continued)

#### c) Capital commitments

	2024	2023
Capital commitments for purchase of:		
- property and equipment	5,985	5,784
- intangible assets	4,066	4,390
Total	10,051	10,174

#### d) Funds managed on behalf of third parties

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

	2024	2023
Gross amount of managed liabilities on behalf third parties	51,915,982	50,420,038
Commission from activities	42,322	33,556

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

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

- Level 1 the fair value is determined by quoted prices (unadjusted) in active markets for identical assets and liabilities. In level 1 are included government bonds – Eurobonds which has data on quoted bid prices. When an asset or liability may be exchanged in multiple active markets, the principal market for the asset or liability must be determined. In the absence of a principal market, the most advantageous market for the asset or liability must be determined.
- Level 2 the fair value is determined by using valuation techniques that include inputs from active markets (inputs can directly or indirectly be confirmed and accessible on active market, for example: quoted prices in active markets for similar financial instruments, or any significant input into the model to determine the fair value can be confirmed and accessible on active market). Level 2 comprises derivative assets and liabilities for risk management (FX forward and FX swap), equity instruments issued by VISA Inc USA, Central Securities Depository AD Skopje, Macedonian Stock Exchange AD Skopje, treasury bills that are traded on the interbank market, investment property and financial liabilities measured at fair value through profit or loss.
- Level 3 A valuation technique where inputs are not based on observable market data. Unobservable inputs are used to the extent that relevant observable inputs are not available. Unobservable inputs must reflect the assumptions that market participants would use when pricing an asset or liability. Level 3 comprises equity instruments issued by SWIFT SCRL Belgium and Clearing Interbank System AD Skopje (KIBS).

# 3. Risk management (continued)

# 3.5 Fair value hierarchy of financial and non-financial assets and liabilities (continued)

Equity and debt securities will be transferred from level 1 to level 2 when the security is excluded from active market but can be used valuation techniques that include quoted prices from active markets for similar financial instruments, or any significant input into the model to determine the fair value can be confirmed and accessible on active market.

Equity and debt securities will be transferred from level 1 to level 3 when the security is excluded from active market and can be used only valuation techniques that include inputs that cannot be directly or indirectly confirmed and accessible on active market or based on valuation techniques.

Equity and debt securities will be transferred from level 2 to level 1 when the security is included in active market.

Equity and debt securities will be transferred from level 2 to level 3 when valuation techniques that include quoted prices from active markets for similar financial instruments, or any significant input into the model to determine the fair value cannot be confirmed and accessible on active market.

Equity and debt securities will be transferred from level 3 to level 1 when the security is included in active market.

Equity and debt securities will be transferred from level 3 to level 2 when can be used valuation techniques that include quoted prices from active markets for similar financial instruments, or any significant input into the model to determine the fair value can be confirmed and accessible on active market.

In 2024 there are no transfers between the levels.

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

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

#### 3. Risk management (continued)

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

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

31.12.2024	Level 1	Level 2	Level 3	Total
Financial assets Investment securities measured at fair value through other comprehensive income				
- investment securities - debt	2,694,805	1,591,200	-	4,286,005
- investment securities - equity	-	134,326	35,112	169,438
Derivatives - assets	-	6,078	-	6,078
Financial liabilities				
Derivatives - liabilities	-	-	-	-
Financial liabilities measured at fair value through profit or loss	-	51,420	-	51,420
Non-financial assets				
Investment property	-	91,851	-	91,851
31.12.2023	Level 1	Level 2	Level 3	Total
Financial assets	Levera	Level 2	Levels	Totar
Investment securities measured at fair value through other comprehensive income				
- investment securities - debt	2,647,677	1,603,267	-	4,250,944
- investment securities - equity	-	107,974	35,008	142,982
Derivatives - assets	-	1,931	-	1,931
Financial liabilities				
Derivatives - liabilities	-	2,875	-	2,875
Financial liabilities measured at fair value through profit or loss	-	28,977	-	28,977
Non-financial assets				
Investment property	-	91,851	-	91,851

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

Financial instruments on Level 2 of the fair value hierarchy at the Bank includes investment property, financial liabilities measured at fair value through profit or loss, derivatives (FX forward and FX swap) and equity instruments issued by VISA Inc USA, Central Securities Depository AD Skopje, Macedonian Stock Exchange AD Skopje, treasury bills that are traded on the interbank market.

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

# 3. Risk management (continued)

# 3.5 Fair value hierarchy of financial and non-financial assets and liabilities (continued)

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

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

Financial instruments on Level 3 of the fair value hierarchy in the Bank includes equity instruments issued by SWIFT SCRL Belgium and Clearing Interbank System AD Skopje (KIBS).

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

	Financial assets measured at fair value through other comprehensive income	Total assets
Balance at 1 January 2024	35,008	35,008
Other gains / (losses) for the period not recognized in the income statement	104	104
Transfer out of level 3	-	-
As at 31.12.2024	35,112	35,112
Balance at 1 January 2023	34,327	34,327
Other gains / (losses) for the period not recognized in the income statement	681	681
Transfer out of level 3	-	-
As at 31.12.2023	35,008	35,008

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

#### 3. Risk management (continued)

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

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

#### Financial instruments not measured at fair value

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

	31.12.2024		31.12.2	023
-	Carrying value	Fair value	Carrying value	Fair value
Financial assets measured at amortised cost				
- debt securities	17,734,485	17,124,518	13,021,336	12,589,600
- loans and advances to banks	2,271,520	2,268,727	3,980,536	3,974,743
- loans and advances to customers	85,858,235	84,059,150	74,930,456	72,927,844
- other financial assets	700,764	700,764	1,683,423	1,683,423
Financial liabilities measured at amortised cost				
- deposits from banks	391,309	391,309	395,293	395,293
- borrowings from banks	2,264,511	2,264,400	2,751,498	2,728,458
- deposits from customers	106,780,501	106,881,738	92,386,176	92,232,477
- borrowings from other customers	3,755	3,682	5,909	5,752
- subordinated liabilities	1,534,426	1,356,011	2,088,605	1,699,995
- other financial liabilities	1,261,941	1,262,030	1,568,064	1,568,064

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

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

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

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

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

#### Loans and advances to banks

Due to other banks includes inter-bank placements.

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

The estimated fair value of other loans and advances to banks represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

# 3. Risk management (continued)

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

#### Loans and advances to customers

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

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

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

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

The fair value of the term deposits at variable interest rates is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. Subordinated liabilities carry variable interest rates, and the fair value is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

#### 3. Risk management (continued)

# 3.5 Fair value hierarchy of financial and non-financial assets and liabilities (continued)

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

31.12.2024	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised				
cost				
- debt securities	6,467,003	10,657,515	-	17,124,518
- loans and advances to banks	-	2,268,727	-	2,268,727
- loans and advances to customers	-		84,059,150	84,059,150
- other financial assets	-	700,764	-	700,764
Financial liabilities measured at amortised				
cost				
- deposits from banks	-	391,309	-	391,309
- deposits from customers	-	106,881,738	-	106,881,738
- other borrowed funds	-	2,268,082	-	2,268,082
- subordinated liabilities	-	1,356,011	-	1,356,011
- other financial liabilities	-	1,262,030	-	1,262,030

31.12.2023	Level 1	Level 2	Level 3	Total fair value
Financial assets measured at amortised cost				
- debt securities	1,019,624	11,569,976	-	12,589,600
- loans and advances to banks	-	3,974,743	-	3,974,743
- loans and advances to customers	-	-	72,927,844	72,927,844
- other financial assets	-	1,683,423	-	1,683,423
Financial liabilities measured at amortised cost				
- deposits from banks	-	395,293	-	395,293
- deposits from customers	-	92,232,477	-	92,232,477
- other borrowed funds	-	2,734,210	-	2,734,210
- subordinated liabilities	-	1,699,995	-	1,699,995
- other financial liabilities	-	1,568,064	-	1,568,064

In 2024 and 2023 there are no transfers between the levels.

# 3.6 Capital management

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

- to uphold the capital requirements set by the regulator;
- to protect the Bank's ability for maintaining the continuity of work in order to continue the return to the shareholders and the interested parties and
- to maintain a strong capital basis to support the development of the business.

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

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

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

- the Common Equity Tier I capital must not be lower than 4.5% of the risks weighted assets;
- the Tier I capital must not be lower than 6% of the risks weighted assets;
- the capital adequacy ratio must not be lower than 8% of risks weighted assets and
- the capital buffers such as: capital conservation buffer (2.5%), countercyclical capital buffer (2.5%), capital buffer for systemically important banks (from 1% 3.5%) and systemic risk capital buffer (from 1% 3%).

Based on the NBRNM's Supervisory Review and Evaluation Process (SREP) for minimum level of capital requirement for NLB Banka Skopje for 2025 remains unchanged, i.e. 3.25% and should be covered with CET I capital. Therefore, the Bank in 2025 is obliged to maintain the capital adequacy rate above 11.25%, not including the capital buffers.

In addition, the Bank is obliged to maintain the capital buffers such as:

- capital conservation buffer determined at the level of 2.5% of the risk weighted assets;
- capital buffer for systemically important bank, with the rate of 2.0% (previously 2.0%) from the risks weighted assets;
- systemic risk capital buffer is not currently applicable to the Bank and
- countercyclical capital buffer from 0.75% from January 2024 till June 2024, 1.00% from July 2024, 1.25% from November 2024, 1.50% from January 2025 and 1.75% from August 2025 till December 2025.

The Bank should achieve and maintain capital adequacy rate of 17.00% for YE 2024, 17.25% starting January 2025 and 17.50% from August 2025.

The Bank's own assets consist of:

- Tier I capital that consists of Common Equity Tier I capital (capital instruments, premium on capital instruments sold, mandatory general reserve retained undistributed profit unencumbered by any future obligations, current profit or yearend profit and accumulated other comprehensive income according to the directions given by NBRNM) and the Additional Tier I capital (capital instruments and premium from the sale of the capital instruments, corrected for the regulatory adjustments according to the directions from NBRNM) and
- Tier II capital is comprised from the capital instruments and the subordinated loans and premium from sale of the capital instruments, corrected for the regulatory adjustments according to the directions from NBRNM.

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

# 3. Risk management (continued)

# 3.6 Capital management (continued)

		2024	2023
	CET 1	4.50%	4.50%
Pillar 1	Tier 1	6.00%	6.00%
	Total capital	8.00%	8.00%
Pillar 2	Total capital	3.25%	3.25%
	CET 1	7.75%	7.75%
Total SREP Capital requirement (TSCR)	Tier 1	9.25%	9.25%
	Total capital	11.25%	11.25%
Combined Buffer requirement (CBR)			
Conservation buffer	CET 1	2.50%	2.50%
SII buffer	CET 1	2.00%	2.00%
Countercyclical buffer	CET 1	1.25%	0.50%
Systemic risk buffer	CET 1	0.00%	0.00%
	CET 1	13.50%	12.75%
	Tier 1	15.00%	14.25%
Overall capital requirement*	Total capital	17.00%	16.25%
	Total capital + management buffer	17.50%	16.75%

\*Overall capital requirement is according to the risk appetite of the bank

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

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

The Bank's aggregate foreign currency position includes foreign currency asset and liability items. Net spot position and net forward position classified as C, D and E risk categories are reported on net basis, i.e. less of any impairment losses/provision.

The Bank uses the standardised approach for determining required capital for operational risk meaning dividing achieved financial results into eight business lines.

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

# 3. Risk management (continued)

#### 3.6 Capital management (continued)

3.0 Oapital management (continued)		
	31.12.2024	31.12.2023
Capital instruments of CET1	854,136	854,136
Premium on the capital instruments of CET1	2,274,484	2,274,484
Mandatory general reserve	9,440,511	8,705,956
Retained undistributed profit	2,970,734	2,650,308
Accumulated other comprehensive income	116,401	8,394
(-) Intangible assets	(9,326)	(26,960)
COMMON EQUITY TIER 1 CAPITAL (CET1)	15,646,940	14,466,318
Additional Tier 1 capital (AT1)	612,798	-
TIER 1 CAPITAL	16,259,738	14,466,318
Tier 2 capital	1,537,375	2,087,498
Total CAPITAL (OWN FUNDS)	17,797,113	16,553,816
RWA for credit risk	85,662,739	78,319,776
RWA for market risks	619,792	719,840
RWA for operational risk	9,673,238	8,549,137
RWA for counterparty risk	21,493	41,646
Total RISK EXPOSURE AMOUNT (RWA)	95,977,262	87,630,399
Common Equity Tier 1 Ratio	16.30%	16.51%
Tier 1 Ratio	16.94%	16.51%
Total Capital Ratio	18.54%	18.89%

In order to fulfil the required capital adequacy ratio at local level (17.00%) and at NLB Group level (17.50% with the included addition of 50 basic points as an internal management addition), the Supervisory Board of the Bank decided, and based on prior consent obtained by NBRNM, part of the profit after tax realized in the period from 1 January to 31 December 2024 in accordance with the regulation of NBRNM, in the amount of MKD 1,054,981 thousands, to be included in the calculation of CET1 capital on 31 December 2024. The amount included in the calculation of the CET1 capital is limited for distribution (payment) to the shareholders in the future and it should be further confirmed at the Annual Shareholders' Assembly of the Bank.

# 3.7 Reporting by segments

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

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

The segments of the Bank are divided into three segments.

The segments are the following:

- Retail segment includes operations with Individuals and Micro and Small companies under Internal Methodology (total credit exposure up to MKD 12,300 thousands and MKD 120,000 thousands revenue);
- Corporate segment includes operations with Large companies, SME with total credit exposure above MKD 12,300 thousands and MKD 120,000 thousands revenue, and Workout clients. It also includes operations with Banks, Saving houses, IFIs, Insurance companies, Pension funds, Investment funds, and other operation (bank's own operations);
- Financial institutions segment covers the transactions with following products: custodian and custody services, securities, borrowings, subordinated debt, debt securities, foreign exchange/currency risk management, interest rate risk management, money market risk management, primary market;
- Other segment includes part of fee expenses for Bankart, MasterCard and Visa, that can not be allocated to a specific segment (Corporate, Retail, Financial Markets)

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

More than 95% of total revenues of the Bank which include interest income, dividend income and fee and commission income are generated on domestic market.

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

Financial statements in accordance with IFRS for the year ended 31 December 2024 (All amounts in MKD thousands unless otherwise stated)

# 3.7 Reporting by segments (continued)

31.12.2024	Retail	Corporate	Financial Markets	Other	Total
Net interest income	2,940,631	1,091,037	675,157	130	4,706,955
Interest Income	3,278,663	1,134,017	901,388	153	5,314,221
Interest Expense	(338,032)	(42,980)	(226,232)	(22)	(607,266)
Fee Other Income	1,258,797	266,422	(76,089)	(124,031)	1,325,099
Impairment charges	212,190	671,491	(10,038)	56,273	929,916
Exposure Gross Assets	59,044,319	35,434,355	35,271,916	6,062,939	135,813,529
Exposure Gross Liabilities	88,523,672	19,993,273	4,126,864	416,921	113,060,730
Exposure Net Assets	57,492,754	34,149,588	35,203,394	6,062,956	132,908,693

31.12.2023	Retail	Corporate	Financial Markets	Other	Total
Net interest income	2,653,539	992,260	377,005	-	4,022,804
Interest Income	2,835,314	1,019,225	653,592	-	4,508,131
Interest Expense	(181,775)	(26,965)	(276,587)	-	(485,327)
Fee Other Income	1,030,773	296,064	(70,284)	(135,269)	1,121,284
Impairment charges	(391,533)	321,522	16,084	7,098	(46,829)
Exposure Gross Assets	53,951,794	24,590,777	36,840,639	1,792,962	117,176,172
Exposure Gross Liabilities	76,927,560	15,261,913	7,326,895	433,328	99,949,696
Exposure Net Assets	52,116,251	22,701,773	36,773,244	5,588,656	117,179,924

# 4. Net interest income

	2024	2023
Interest income calculated using the effective interest method		
Loans and advances at amortised cost:		
- to banks	159,745	197,429
- to customers	4,421,066	3,880,595
Cash and balances with central banks	116,362	40,426
Financial assets measured at fair value through other comprehensive income	146,151	133,405
Debt securities measured at amortised cost	470,897	256,276
Total	5,314,221	4,508,131

#### Interest and similar expenses

Interest expense calculated using the effective interest method

607,266	485,327
2,150	2,072
4,934	2,486
181,514	239,066
46,300	31,180
371,845	210,262
523	261
	371,845 46,300 181,514 4,934 2,150

# 5. Dividend income

	2024	2023
Financial assets measured at fair value through other comprehensive income	393	2,765
Total	393	2,765

# 6. Net fee and commission income

	2024	2023
Fee and commission income		
Letters of credit and guarantees	80,050	84,423
Payment transaction	1,032,562	1,010,016
Trust and other fiduciary fees	33,813	30,030
Received commission for credit cards	375,095	398,183
Investment banking	10,987	6,293
Transactions with traders	431,993	413,031
Card settlement	330,600	324,352
Received commission from banking insurance	82,606	63,692
Other fees	27,779	25,374
Total	2,405,485	2,355,394
Fee and commission expense		
Payment transaction	286,383	246,705
Card settlement and commission for credit cards	785,710	977,185
Investment banking	740	290
Other fees paid	7,553	9,930
Total	1,080,386	1,234,110
Net fee and commission income	1,325,099	1,121,284

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

# 6. Net fee and commission income (continued)

# Analysis by segment

	Retail Bankin Macedo		Corporate Investment Ba North Mace	anking in	Financial M North Mac		Other ac	tivities	Tot	al
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Fee and commission income										
Fee and commission income relating to financial										
instruments not at fair value through profit or										
loss										
Credit cards and ATMs	762,309	807,190	380,366	328,375	-	-	(4,986)	-	1,137,689	1,135,565
Customer transaction accounts	-	-	-	-	-	-	-	-	-	-
Other fee and commission income	-	-	-	-	-	-	-	-	-	-
Payments	799,831	767,316	232,731	242,700			-	-	1,032,562	1,010,016
Investment funds	10,987	6,264	841	1,651	32,972	28,409	-	-	44,800	36,323
Agency of insurance products	82,606	63,692	-	-	-	-	-	-	82,606	63,692
Other services	23,334	22,115	4,445	3,260	-	-	-	-	27,779	25,374
Total fee and commission income from										
contracts with customers	1,679,067	1,666,577	618,383	575,985	32,972	28,409	(4,986)	-	2,325,436	2,270,971
Guarantees	5,786	6,008	74,263	78,416			-	-	80,049	84,424
Total	1,684,853	1,672,584	692,646	654,401	32,972	28,409	(4,986)	-	2,405,485	2,355,394
Fee and commission expenses relating to										
fiduciary activities	481,800	644,084	377,132	354,822	105,508	102,591	115,946	132,613	1,080,386	1,234,110
Total	481,800	644,084	377,132	354,822	105,508	102,591	115,946	132,613	1,080,386	1,234,110
Net fee and commission income related to										
banking activities	1.203.053	1.028.500	315.514	299.579	(72,536)	(74,182)	(120.932)	(132.613)	1.325.099	1,121,284

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

	2024	2023
Net gains/losses foreign exchange trading income		
- gains	413,604	429,817
- losses	(76,643)	(82,730)
Net gains/losses from derivatives		
- gains	6,078	1,931
- losses	-	(2,875)
Net gains/losses from changes in fair value of derivatives held for trading		
- gains	126,095	61,930
- losses	(114,777)	(76,516)
Total	354,357	331,557

# 8. Net gains/(losses) from financial liabilities measured at fair value through profit or loss

	2024	2023
Net gains/losses from financial liabilities		
- gains	1,127	282
- losses	(16,763)	(6,904)
Total	(15,636)	(6,622)

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# 9. Net foreign exchange gain/(loss)

	2024	2023
Foreign exchange gains	566,998,034	579,498,147
Foreign exchange losses	(567,008,233)	(579,477,894)
Total	(10,199)	20,253

The gross amount of foreign exchange gains/losses arise because of daily translation of foreign currency balances.

# 10. Net gains/(losses) on derecognition of assets

	2024	2023
Net gains/(losses) at derecognition of property and equipment:		
- own property and equipment	5,099	1,530
Net gains/(losses) at derecognition-other (without HFS)	(35)	(30,105)
Total	5,064	(28,575)

# 11. Other operating income

	2024	2023
Rental income	14,348	14,361
Income from non-banking services - cash transportation	47,584	44,231
Other	51,417	25,521
Total	113,349	84,113

The line item "Other" mainly includes intragroup services income for card service from Regional Card Competence Centre and the service for independent validation of the Data governance framework from Group independent validation function of NLB Banka AD Skopje.

#### 12. Other operating expenses

	2024	2023
Insurance premiums for deposits	174,812	164,455
Charges under court decision	682	1,647
Revaluation of investment property to fair value (note 30)	-	4,124
Other	31,656	50,822
Total	207,150	221,048

Insurance premium for deposits is calculated as percent of 0.25% of retail deposits. The line item "Other" mainly includes expenses associated with donations.

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# 13. Personnel expenses

	2024	2023
Wages and salaries	793,615	745,561
Social security costs	287,328	266,861
Pension costs:		
- defined contribution plans	33,065	32,496
Holiday allowances	42,711	33,814
Compensation benefits to the members of the Management Board and managers	34,023	41,954
Unused annual leaves	4,649	7,999
Other employee costs	79,097	56,268
Net expense/(income) provisions for pensions&similar liab (note 42)	1,169	418
Net expense/(income) provisions for other long term employee benefits (note 42)	636	4,919
Other	1,890	602
Total	1,278,183	1,190,892
Number of employees	970	953

# 14. General and administrative expenses

	2024	2023
Technology		
- maintainance of software and hardware	81,191	80,035
- data access and subscription costs	18,020	14,082
- licences	61,761	53,808
Buildings and equipment		
- electricity	40,308	46,285
- other costs related to buildings and equipment	22,960	23,704
- maintainace cost	80,917	61,079
- cost of insurance for tangible assets	1,403	1,311
- cost of security - buldings	13,982	18,812
- rents and leases	29,319	23,763
Cost of materials	42,520	45,095
Marketing and public relations	33,114	33,315
Travel and entertainment	32,235	28,401
Telecommunication and postage		
- postal services	8,133	6,561
- telecommunication and internet	35,055	33,411
Rental staff costs	31,483	25,269
Services for collection of claims	26,217	10,328
Cost of auditing services	10,254	3,517
Cost of scholarship, education	12,794	8,620
Cost of other communation services	21,816	18,533
Taxes and other public revenues	2,056	2,688
Memership fees and similar	3,585	2,978
Other insurance	13,228	14,627
Other general and administrative expenses	189,570	160,600
Total	811,921	716,822

The line item "Other general and administrative expenses" includes costs for cash transport, consulting services, intellectual services, archiving services and other services.

The line "Cost of auditing services" includes expenses related to the audit of the financial statement of the statutory auditor of NLB Banka AD Skopje.

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# 15. Depreciation and amortisation expenses

	2024	2023
Depreciation of property and equipment:		
- own property and equipment (note 31)	153,156	148,854
- right-of-use assets (note 31)	72,319	75,882
Amortisation of software and other intangible assets (note 32)	103,123	107,318
Total	328,598	332,054

#### 16. Gains less losses from modification

	2024	2023
Losses from modification of financial assets at amortised cost	-	(14)
Total	-	(14)

# 17. Provisions

	2024	2023
Provision for off balance - Guarantiees and commitments		
(note 42)		
Increase of provisions	(407,173)	(382,838)
Reversal of provisions	542,440	337,001
Provisions for lawsuits (note 42)		
Increase of provisions	-	-
Reversal of provisions	-	23,707
Total	135,267	(22,130)

# **Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

#### 18. Impairment charges

io. Impairment charges	2024	2023
Impairment of financial assets		
Cash, cash balances at central bank and demand deposits at b	banks	
Increase in impairment	(14,675)	(7,877)
Reversal of impairment	14,105	7,091
Financial assets at fair value through OCI (note 27. b)		
Increase in impairment	(9,210)	(7,438)
Reversal of impairment	14,351	11,314
Debt securities measured at amortised cost (note 27. b)		
Increase in impairment	(35,582)	(10,607)
Reversal of impairment	19,723	23,974
Loans and advances to banks measured at amortised cost (note 27. a)		
Increase in impairment	(8,216)	(7,894)
Reversal of impairment	8,463	7,787
Loans and advances to individuals measured at amortised cost (note 27. a)		
Increase in impairment	(2,395,906)	(2,182,961)
Reversal of impairment	2,405,410	1,723,685
Loand and advances to legal enteties measured at amortised cost (note 27. a)		
Increase in impairment	(997,522)	(1,153,760)
Reversal of impairment	1,461,534	1,369,914
Other financial assets measured at amortised cost (note 27. a)		
Increase in impairment	(50,501)	(48,486)
Reversal of impairment	28,423	33,167
Collected written-off receivables (note 27. a)	350,578	234,326
Total impairment of financial assets	790,975	(7,765)
Impairment of non-financial assets		
Impairment of other assets (note 28)	3,674	(16,934)
Impairment - property&equipment (note 31)	-	-
Total impairment of non-financial assets	3,674	(16,934)
Total impairment	794,649	(24,699)

The line item "Collected written-off receivables" with the amount of MKD 350,578 thousand (2023: MKD 234,326 thousand) includes amounts of collected written-off receivables with repayment and sales of receivables.

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

### **19.** Income tax expense

	2024	2023
Current taxes expense		
- Current taxes on income for the reporting period	379,388	338,292
- Global minimum top-up tax	134,544	-
Deferred tax expense	94,681	(36,306)
Total	608,613	301,986

	2024	2023
Profit before tax	4,762,393	3,022,177
Tax calculated at a tax rate of 10%	476,239	302,218
Effect off:		
Income not assessable for tax purposes	-	(2,022)
Reinvested income not subject to tax	(171,862)	(40,525)
Expenses not deductible for tax purposes	157,159	164,317
Tax deduction for donation in sport	(96)	(29,400)
Global minimum top-up tax	134,544	-
Temporary difference from legal tax regime	(82,052)	(56,296)
<b>Income tax expense</b> (effective tax rate 10.79% and 11.19% respectively)	513,932	338,292
Deferred tax:		
Relating to origination and reversal of temporary differences	94,681	(36,306)
Income tax expense reported in the Income statement	608,613	301,986

	Statement of financial position	
	2024	2023
Income tax liabilities (current)	68,655	99,670
Income tax liabilities (non-current)	134,544	-
Total	203,199	99,670

The Bank has calculated the minimum global tax for fiscal year 2024 amounting to MKD 134,554 thousand. The Bank is obliged to submit a Domestic Additional Tax Return to the Public Revenue Office no later than 18 months after the end of the financial year to which it relates, i.e. by 30 June 2026. The deadline for payment of the global tax is 30 days after the deadline for submission of the return, i.e. 30.07.2026.

# 19. Income tax expense (continued)

		Statement of finacial position		Income statement	
Deferred tax	2024	2023	2024	2023	
Revaluation of foreclose collateral	(3,057)	(2,043)	1,014	(9,664)	
Revaluation of investment propery to fair value	(672)	(442)	230	212	
Impairment provision	(147,873)	(55,709)	92,164	(28,670)	
Modification	3,188	4,461	1,273	1,816	
Deferred tax assets/(liabilities), net	(148,414)	(53,733)	94,681	(36,306)	

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

Total	19,417,311	16,737,430
Less: allowance for impairment	(3,116)	(1,756)
Restricted deposits	-	419,647
Mandatory reserve deposits with central bank	5,886,916	5,844,454
Less: allowance for impairment	(3,531)	(4,319)
Demand deposits at banks	979,717	1,204,899
Balances with central bank other than mandatory reserve deposits	8,680,405	5,943,301
Cash in hand	3,876,920	3,331,204
	2024	2023

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

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

During 2024, the National Bank on three occasions changed the reserve requirement rates of the banks for liabilities in foreign currency from 18% to 21%. The part of the reserve requirement in foreign currency that banks meet in euros has been increased, from 75% to 81%, the reserve requirement rate of denar liabilities with FX clause from 50% to 100%.

The obligatory reserve in denars as of 31 December 2024 is in amount of MKD 4,922,170 thousands (2023: MKD 3,647,776 thousands). The effective interest rate on the obligatory reserve in MKD is 0% (2023: 0%). Obligatory reserve funds in denars are maintained on the current account opened with NBRNM.

# 20. Cash, balances at Central bank and demand deposits at banks (continued)

The obligatory reserve in foreign currency as of 31 December 2024 is in amount MKD 1,038,868 thousands or EUR 16,892 thousands (2023: MKD 649,383 thousands or EUR 10,559 thousands). In accordance with the Decision on reserve requirement, the Bank maintains 90% of the reserve requirement amount in euro allocated to the foreign exchange account of the Central Bank abroad and 10% of the reserve requirement amount in euro allocated on its account in euro in MIPS.

The National Bank does not determine remuneration for the obligatory reserve in denars.

Remuneration for the obligatory reserve in euros is determined at a rate equal to the lower rate of 0% and the interest rate on the overnight deposit of the European Central Bank, which was valid on the last day of the maintenance period.

If the average daily balance of the bank's allocated funds is higher than the confirmed obligatory reserve in euros for the entire maintenance period, remuneration is determined on the excess allocated funds at a rate equal to the lower rate of 0% and the interest rate on the overnight deposit of the European Central Bank, which was valid on the last day of the maintenance period, reduced by 0.15 percentage points.

# 21. Financial assets measured at fair value through other comprehensive income

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

	2024	2023
Financial assets measured at fair value through		
other comprehensive income included in cash		
equivalents		
Treasury bills:		
- National Bank of Republic of North Macedonia	1,591,200	1,603,267
Total financial assets measured at fair value through other comprehensive income included in cash equivalents	1,591,200	1,603,267
Other financial assets measured at fair value through other comprehensive income Government bonds:		
- Republic of North Macedonia	2,694,805	2,647,677
Shares:		
- other financial institutions	169,438	142,982
Total	4,455,443	4,393,926
of these equity securities	169,438	142,982
of which unlisted	169,438	142,982
of these debt securities	4,286,005	4,250,944
of which listed	2,694,805	2,647,677
of which unlisted	1,591,200	1,603,267
Allowance for impairment	(10,501)	(15,639)

# 21. Financial assets measured at fair value through other comprehensive income (continued)

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

	2024		2023	
	Equity securities	Debt securities	Equity securities	Debt securities
At 1 January	142,982	4,250,944	126,332	4,908,087
Exchange difference	5,967	124	-	(79)
Interest added to principal	-	146,151	-	133,405
Additions	-	12,240,946	-	12,197,837
Disposals and maturity	-	(12,434,600)	-	(13,189,439)
Net gains/losses from changes in fair value	20,489	82,440	16,650	201,133
At 31 December	169,438	4,286,005	142,982	4,250,944

The treasury bills owned by the Bank on 31 December 2024 are debt securities issued by NBRNM with a maturity of 49 days and fixed interest rate. They are nominated in denars. The primary market is the auctions of the treasury bills organized by NBRNM. On the secondary market, they can be traded at the over-the-counter market. Only banks and saving houses can trade with treasury bills.

The effective interest rate of these securities moves from 5.55% to 6.30% (2023: 4.75% to 6.30%) on annual basis.

Eurobonds are classified as debt securities measured at fair value through other comprehensive income in the amount of MKD 2,694,805 thousand (2023: MKD 2,647,677 thousands). The Eurobonds owned by the Bank as at 31 December 2024 have a maturity of 6 and 7 years and are denominated in euro. The total amount of the Eurobonds includes interest of MKD 62,325 thousand (2023: MKD 62,232 thousands). The effective interest rate is from 1.18% to 3.13% annually.

Equity instruments are from financial companies in the amount of MKD 169,438 thousands (2023: MKD 142,982 thousands).

Listed securities are valued at the last purchase price on each trading day on the Macedonian Stock Exchange and for foreign securities prices are obtained from Bloomberg.

# 22. Financial assets measured at amortised cost

Analysis by type

	2024	2023
Debt securities	17,734,485	13,021,336
Loans and advances to banks	2,271,520	3,980,536
Loans and advances to customers	85,858,235	74,930,456
Other financial assets	700,764	1,683,423
Total	106,565,004	93,615,751

# 23. Debt securities

	2024	2023
Debt securities measured at amortised cost		
Government bills	5,831,847	3,904,521
Government bonds	11,955,727	9,154,040
Less:allowance for impairment - stage 1 (note 27. b)	(53,089)	(37,225)
Total	17,734,485	13,021,336

#### Government bills

Government bills classified as financial assets at amortised cost are MKD 5,831,847 thousands (2023: MKD 3,904,521 thousands).

The government bills owned by the Bank on 31 December 2024 are issued by Federal Republic of Germany, Kingdom of Belgium, Kingdom of the Netherlands, Republic of Austria and United States of America.

The full amount will mature in 2025. The effective interest rate is from 2.4% to 5.39% on annual basis.

#### **Government bonds**

Continuous government bonds are classified as debt securities at amortised cost in the amount of MKD 11,310,705 thousands (2023: MKD 8,083,433 thousands).

Continuous government bonds are with maturity of 2, 3, 5, 7, 10 and 15 years and are nominated in denars and denars with currency clause in euros. The total amount of continuous government bonds includes interest in the amount of MKD 279,069 thousands (2023: MKD 113,036 thousands). The effective interest rate is from 0.80% to 5.25% on annual basis. During 2025, continuous government bonds will mature in the nominal amount of MKD 2,564,843 thousands.

Eurobonds issued by the Republic of North Macedonia classified as debt securities at amortised cost are in the amount of MKD 645,022 thousand (2023: MKD 657,240 thousand). The Eurobonds owned by the Bank on 31 December 2024, are with maturity of 6 years and are denominated in euro. The total amount of Eurobonds includes interest of MKD 13,126 thousand (2023: MKD 13,090 thousand). The effective interest rate is from 2.03% to 2.05% on annual basis.

The Eurobond issued by the Republic of Slovenia classified as held to maturity in 2023 in the amount of MKD 413,367 thousand is matured in 2024.

# 24. Loans and advances to banks

	2024	2023
Placements with other banks	2,259,590	3,966,974
Included in cash and cash equivalents	2,259,590	3,966,974
Placements with other banks with maturity over 3 months	-	-
Loans and advances to other banks	12,327	14,187
Less: allowance for impairment - stage 1 (note 27. a)	(397)	(625)
Total	2,271,520	3,980,536

# 25. Loans and advances to customers

	2024	2023
Individual (retail customers)		
- overdrafts	1,162,751	1,272,403
- credit cards	2,124,007	2,302,258
- term loans	31,034,800	28,436,979
- mortgages	22,830,896	20,089,556
- called guarantees	-	3,085
Total	57,152,454	52,104,281
Corporate entities		
- companies	30,993,357	25,954,566
- other financial organization	498,323	557,640
- governement	673	1,032
- non-profit organization	5,482	6,272
Total	31,497,835	26,519,510
Gross loans and advances	88,650,289	78,623,791
Less: allowance for impairment (note 27. a)	(2,792,054)	(3,693,335)
Total	85,858,235	74,930,456

The line item "Loans and advances to customers" includes advance payments for not matured loans and interest in amount of MKD 205,817 thousands (2023: MKD 178,742 thousands).

## 26. Other financial assets

	2024	2023
Credit cards receivables	552,132	448,268
Debtors	58,594	23,800
Commission claims	92,728	99,562
Other	39,458	1,151,528
Less: allowance for impairment (note 27. a)	(42,148)	(39,735)
Total	700,764	1,683,423

On 31.12.2023, the Bank presented a receivable based on securities settlement in the amount of MKD 1,114,300 thousand for a continuous government bond with a maturity date of 31.12.2023. The receivables were paid on 2.1.2024. For 2024, the line "Other items" includes claims for money transfer services, claims for court fees in enforcement procedures and other claims.

# 27. Movements in allowance for financial asset

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

	Balance as at 1 Jan 2024	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Total transfers	Increases/ decreases	Write-offs	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2024	Repayments of written-off receivables
12-month expected credit losses											
Loans and advances to banks	625	-	-	-		(249)	-	2	19	397	-
Loans and advances to individuals	707,155	(144,438)	987,918	914	844,394	(735,723)	(58)	(324,174)	(1,051)	490,543	-
Loans and advances to legal entities	452,593	(16,833)	15,229	884	(720)	109,677	(25)	(178,680)	342	383,187	-
Other financial assets	1,804	(481)	909	149	577	79	(1,090)	(516)	335	1,189	-
Life time ECL not credit impaired											
Loans and advances to banks	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to individuals	301,590	144,402	(1,191,108)	225,760	(820,946)	806,390	96	(5,345)	874	282,659	-
Loans and advances to legal entities	135,041	15,968	(29,972)	21,930	7,926	(85,010)	(177)	33,968	49	91,797	-
Other financial assets	538	310	(1,437)	854	(273)	1,296	(1,130)	(29)	-	402	-
Life time ECL credit impaired											
Loans and advances to banks	-	-	-	-	-	-	-	-	-		-
Loans and advances to individuals	721,122	36	203,190	(226,674)	(23,448)	270,683	(250,071)	(21,335)	(5,005)	691,946	(195,808)
Loans and advances to legal entities	1,375,834	865	14,743	(22,814)	(7,206)	(385,171)	(279,479)	41,204	106,740	851,922	(125,295)
Other financial assets	37,393	171	528	(1,003)	(304)	18,847	(17,764)	2,401	(16)	40,557	(29,475)
Of which: Purchased credit- impaired financial assets	-	-	-	-	-	-	-	-	-	-	

	Balance as at 1 Jan 2023	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Total transfers	Increases/ decreases	Write-offs	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2023	Repayments of written-off receivables
12-month expected credit losses											
Loans and advances to banks	528	-	-	-	-	107	-	-	(10)	625	
Loans and advances to individuals	664,311	(131,551)	682,293	96,032	646,774	(473,196)	(228)	(130,512)	6	707,155	-
Loans and advances to legal entities	468,743	(37,937)	28,082	2,993	(6,861)	64,000	(2)	(73,470)	183	452,593	-
Other financial assets	5,396	(516)	1,277	372	1,133	(1,591)	(685)	(2,449)	-	1,804	-
Life time ECL not credit impaired											
Loans and advances to banks	-	-	-	-	-	-	-	-	-	-	
Loans and advances to individuals	139,326	130,130	(842,597)	133,765	(578,701)	682,149	(126)	58,996	(54)	301,590	-
Loans and advances to legal entities	267,099	36,973	(64,308)	14,581	(12,753)	(30,694)	(1)	(88,656)	46	135,041	-
Other financial assets	923	424	(1,842)	653	(764)	1,398	(1,204)	180	5,000.00	538	-
Life time ECL credit impaired											
Loans and advances to banks	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to individuals	662,803	1,421	160,304	(229,797)	(68,072)	327,111	(189,342)	(5,272)	(6,101)	721,127	(77,599)
Loans and advances to legal entities	1,718,720	963	36,225	(17,575)	19,614	(68,412)	(321,375)	(18,922)	46,209	1,375,834	(148,366)
Other financial assets	40,289	93	566	(1,024)	(365)	19,555	(20,306)	(1,774)	(6)	37,393	(8,361)
Of which: Purchased credit- impaired financial assets	-	-	-	-	-	-	-	-	-	-	

# 27. Movements in allowance for financial assets (continued)

#### b) Movements in allowance for impairment of debt securities

	Balance as at 1 Jan 2024	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Total transfers	Increases/ decreases	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2024
12-month expected credit losses									
Debt securities mesured at amortised cost	37,225	-	-	-	-	15,859	-	5	53,089
Debt securities mesured at fair value through other comprehensive income	15,639	-	-	-	-	(5,141)	-	3	10,501
Life timeECL not credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Life time ECL credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-

	Balance as at 1 Jan 2023	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Total transfers	Increases/ decreases	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2023
12-month expected credit losses									
Debt securities mesured at amortised cost	50,592	-	-	-	-	(13,367)	-	-	37,225
Debt securities mesured at fair value through other comprehensive income	19,507	-	-	-	-	(3,876)	-	8	15,639
Life timeECL not credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Life time ECL credit impaired									
Debt securities mesured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-

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

In year 2024, the increase in gross carrying amount did not cause significant changes in the loss allowance level.

The gross carrying amount of debt securities at amortised cost increased by MKD 4,729,013 thousand, and cause increase of the balance of loss allowance by MKD 15,864 thousand. The gross carrying amount of debt securities measured at fair value through other comprehensive income decreased by MKD 47,380 thousand and the loss allowance decreased by MKD 5,138 thousand. Changes in gross carrying amount of loans to individuals were significant, i.e., increase by MKD 5,048,174 thousand, and is mainly driven by increased exposure in stage 1 by MKD 5,019,842 thousand, together with the decrease of loss allowance to individuals by MKD 264,719 thousand, mostly as a result of new risk parametars for PI.

Decrease of loans and advances to banks by MKD 1,709,244 thousand, cause decrease of loss allowance by MKD 228 thousand.

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

# 27. Movements in allowance for financial assets (continued)

### Movement of gross carrying amount of loans to banks

12-month expected credit losses	2024	2023
Balance as at 1 January	3,981,161	1,502,124
Decreases/Increases	(1,709,244)	2,479,037
Balance as at 31 December	2,271,917	3,981,161

### Movement of gross carrying amount of loans and advances to customers

	12-month expected credit		Lifetime ECL	
Individuals	losses	credit-impaired	credit-impaired	Total
Balance as at 1 January 2024	49,619,485	1,554,444	930,352	52,104,281
Transfers	(1,081,957)	652,287	429,670	-
Increases/(Decreases)	6,090,852	(610,113)	(174,211)	5,306,528
Write-offs	(74)	(70)	(270,934)	(271,078)
Modification losses	11,021	645	1,057	12,723
Balance as at 31 December 2024	54,639,327	1,597,193	915,934	57,152,454

Individuals	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2023	44,875,873	1,501,816	927,042	47,304,731
Transfers	(609,232)	243,792	365,440	-
Increases/(Decreases)	5,338,338	(192,074)	(155,709)	4,990,555
Write-offs	(1,774)	55	(207,447)	(209,166)
Modification losses	16,280	855	1,026	18,161
Balance as at 31 December 2023	49,619,485	1,554,444	930,352	52,104,281

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# 27. Movements in allowance for financial assets (continued)

Other customers	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2024	22,210,999	2,232,772	2,075,739	26,519,510
Transfers	(247,141)	(55,850)	302,991	-
Increases/(Decreases)	6,557,317	(514,588)	(732,009)	5,310,720
Write-offs	-	-	(332,395)	(332,395)
Balance as at 31 December 2024	28,521,175	1,662,334	1,314,326	31,497,835

· · · · · · · · · · · · · · · · · · ·	12-month			
	expected credit	Lifetime ECL not	Lifetime ECL	
Other customers	losses	credit-impaired	credit-impaired	Total
Balance as at 1 January 2023	23,463,992	2,832,661	2,433,020	28,729,673
Transfers	(1,282,519)	754,457	528,062	-
Increases/(Decreases)	29,495	(1,354,345)	(771,330)	(2,096,180)
Write-offs	31	(1)	(114,013)	(113,983)
Balance as at 31 December 2023	22,210,999	2,232,772	2,075,739	26,519,510

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

12-month expected credit losses	2024	2023
Balance as at 1 January	13,058,561	12,550,974
Additions	12,331,148	6,132,943
Derecognition	(7,602,135)	(5,625,356)
Balance as at 31 December	17,787,574	13,058,561

# 27. Movements in allowance for financial assets (continued)

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

	12-month			
	expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2024	4,396,767	-	-	4,396,767
Additions	1,591,423	-	-	1,591,423
Derecognition	(1,638,802)	-	-	(1,638,802)
Balance as at 31 December 2024	4,349,388	-	-	4,349,388

	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2023	5,255,043	-	-	5,255,043
Additions	1,602,595	-	-	1,602,595
Derecognition	(2,460,871)	-	-	(2,460,871)
Balance as at 31 December 2023	4,396,767	-	-	4,396,767

The table above doesn't include the fair value of debt securities measured at fair value through other comprehensive income.

# 28. Foreclosed collateral

	Carrying am	ount
Nature of assets	2024	2023
Land	3,256	3,269
Buildings	53,116	48,597
Equipment	32	101
Other	31	125
Total (note 28)	56,435	52,092

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

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

	Carrying valu	Carrying value		Fair value less costs to sell		
	2024	2023	2024	2023		
Foreclosed collateral	56,435	52,092	79,485	76,562		

# 28. Foreclosed collateral (continued)

### Movement of foreclosed collateral

	Foreclosed collateral
At 1 January 2024	52,092
Additions	677
Disposals	(8)
Net gains/losses from impairment (note 18)	3,674
At 31 December 2024	56,435
At 1 January 2023	247,481
Additions	9,288
Disposals	(187,743)
Net gains/losses from impairment (note 18)	(16,934)
At 31 December 2023	52,092

# 29. Investment in associates (accounted for using the equity method)

	2024	2023
NLB Lease&Go DOO Skopje	45,168	45,621
Total	45,168	45,621

### Percentage of participation of the Bank in the associates

		% of pa	rticipation
	Country	2024	2023
	Republic of North		
NLB Lease&Go DOO Skopje	Macedonia	49%	49%

# 29. Investment in associates (accounted for using the equity method) (continued)

#### Financial information for the associates – 100%

			Capital and		
	Assets	Liabilities	reserves	Income	Profit / (Loss)
2024					
NLB Lease&Go DOO Skopje	1,438,235	1,345,612	92,623	1,019,691	(41,484)
Balance at 31 December	1,438,235	1,345,612	92,623	1,019,691	(41,484)
2023					
NLB Lease&Go DOO Skopje	609,525	517,472	92,053	669,517	(36,210)
Balance at 31 December	609,525	517,472	92,053	669,517	(36,210)

NLB Lease&Go DOO Skopje is a company founded by NLB Banka AD Skopje, which owns 49% of the total founding capital of the company, together with NLB Lease&Go leasing d.o.o. Ljubljana.

The business activity of the company includes a wide range of leasing solutions, including insurance and other related services for the use of vehicles and equipment that will be leased.

The offer of NLB Lease&Go DOO Skopje is intended for individuals and legal entities and includes the lease of new and used cars, trucks, buses, vessels, agricultural and construction machinery, as well as other types of equipment and machines.

In 2024, the Bank increased the capital investment in the lease company by MKD 20,600 thousand and the total investment of the Bank amounts to MKD 86,103 thousands.

## 30. Investment property

	2024	2023
Investment property at fair value as at 1 January	91,851	95,975
Revaluation of investment property to fair value (note 12)	-	(4,124)
Investment property at fair value as at 31 December	91,851	91,851

The Bank classifies as investment property part of Property and equipment that is not used by the Bank for own use. Property classified as investment property is not depreciated and is measured at fair value. The Bank revalue its investment property based on a valuation performed by a certified valuer.

In the valuation, one of income methods is applied – the direct capitalization method. The estimation of the market value of the property is directly depending on the expected annual net income from the assets or the income resulting from the issuance of the property leased.

In the valuation, is used all documentation available for the property, websites for supply and demand of similar properties, statistical data, information of the sale and rental of suitable properties by investors, information about interest rate of treasury bills and bonds.

The fair value measurement was made using valuation techniques for which the lowest level input that is significant to the fair measurement is directly or indirectly observable (Level 2).

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

<u>Methodology</u>	Inputs	Ranges
Direct capitalization method	Net annual rent income	EUR 8 per sq.m.
	Capitalization rate	9.58%

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### 30.Investment property (continued)

Total investment property is leased to others. The rental income from investment property is MKD 6,934 thousands (2023: MKD 6,936 thousands), while the Bank has no additional expenses concerned with the investment property.

During 2024, the Bank has no new acquired or sale of investment property. As at 31 December 2024 the Bank does not have any investment property pledged as collateral (2023: nil).

# 31. Property, equipment and right-of-use assets

Acquisition cost	Land and buildings at cost	Furniture & equipment	Other	Total property and equipment	Right-of- use assets - Land and buildings	Right-of-use assets - Furniture and equipment	Right-of-use assets - Motor vehicles	Total Right- of-use assets	Total
Opening balance at 1 January	2,091,071	1,469,481	135,570	3,696,122	289,153	124,722	-	413,875	4,109,997
2023					200,100			410,010	
Additions	1,694	90,631	587	92,912	-	-	-	-	92,912
Increases	-	-	-	-	69,117	19,619	-	88,736	88,736
Sales and settlements	-	(16,173)	(923)	(17,096)	(35,829)	-	-	(35,829)	(52,925)
Impairment Transfer to/from investment	-	-	-	-	-	-	-	-	-
property	-	-	-	-	-	-	-	-	-
Write-off	-	(18,362)	(1,807)	(20,169)	-	-	-	-	(20,169)
Closing balance at 31 December 2023	2,092,765	1,525,577	133,427	3,751,769	322,441	144,341	-	466,782	4,218,551
Opening balance at 1 January 2024	2,092,765	1,525,577	133,427	3,751,769	322,441	144,341	-	466,782	4,218,551
Additions	15,105	133,703	18,064	166,872				-	166,872
Increases	-		-	-	46,888	28,543	76,649	152,080	152,080
Sales and settlements	-	(74,628)	-	(74,628)				-	(74,628)
Impairment	-	-	-	-	-	-	-	-	-
Transfer to/from investment									
property	-	-	-	-	-	-	-	-	-
Write-off	(29,968)	(6,222)	(841)	(37,031)	-	-	-	-	(37,031)
Closing balance at 31 December 2024	2,077,902	1,578,430	150,650	3,806,982	369,329	172,884	76,649	618,862	4,425,844
Accumulated depreciation Opening balance at 1 January 2023	(569,767)	(1,183,750)	(88,721)	(1,842,238)	(161,741)	(92,306)		(254,047)	(2,096,285)
Charge for the year (note 15)	(48,088)	(87,263)	(13,503)	(148,854)	(48,576)	(27,306)	-	(75,882)	(224,736)
Sales and settlements	-	16,174	-	16,174	8,753	-	-	8,753	24,927
Impairment	-	-	-	-	-	-	-	-	-
Transfer to/from investment									
property	-	-	-	-	-	-	-	-	-
Write-off	-	18,219	1,807	20,026	-	-	-	-	20,026
Closing balance at 31 December 2023	(617,855)	(1,236,620)	(100,417)	(1,954,892)	(201,564)	(119,612)	-	(321,176)	(2,276,068)
Opening balance at 1 January 2024	(617,855)	(1,236,620)	(100,417)	(1,954,892)	(201,564)	(119,612)	-	(321,176)	(2,276,068)
Charge for the year (note 15)	(47,958)	(91,826)	(13,372)	(153,156)	(46,405)	(22,254)	(3,660)	(72,319)	(225,475)
Sales and settlements	-	72,541	-	72,541				-	72,541
Impairment	-	-	-	-	-	-	-	-	-
Transfer to/from investment		-		-	-		-	-	
property	40 70 4	0.007	0.1.1	00.040					00.010
Write-off	13,734	6,037	841	20,612	-	-	-	-	20,612
Closing balance at 31 December 2024	(652,079)	(1,249,868)	(112,948)	(2,014,895)	(247,969)	(141,866)	(3,660)	(393,495)	(2,408,390)
Net book value									
<u>Net book value</u> at 1 January 2023	1,521,304	285,731	46,849	1,853,884	127,412	32,416	-	159,828	2,013,712
	1,521,304 1,474,910	285,731 288,957	46,849 33,010	1,853,884 1,796,877	127,412 120,877	32,416 24,729	-	159,828 145,606	2,013,712 1,942,483

As at 31 December 2024 the Bank does not have any property pledged as collateral (2023: nil).

# 32. Intangible assets

Accuricition cost	Software	Other intangible assets	Total
Acquisition cost Opening balance at 1 January 2023	658,208	374,782	1,032,990
Additions	8,157	31,240	39,397
Write-off	(25,970)	(21,041)	(47,011)
Transfer	(23,970) 17,998	(21,041) (17,998)	(47,011)
Closing balance at 31 December 2023	658,393	366,983	1,025,376
Closing balance at 51 December 2025	000,090	300,903	1,025,576
Opening balance at 1 January 2024	658,393	366,983	1,025,376
Additions	8,512	39,464	47,976
Write-off	-	-	-
Transfer	23,063	(23,063)	-
Closing balance at 31 December 2024	689,968	383,384	1,073,352
Accumulated depreciation	(463 668)	(274 002)	(728 570)
Opening balance at 1 January 2023	(463,668)	(274,902)	(738,570)
Write-off	25,970	21,041	47,011
Charge for the year (note 15)	(71,711)	(35,607)	(107,318)
Closing balance at 31 December 2023	(509,409)	(289,468)	(798,877)
Opening balance at 1 January 2024	(509,409)	(289,468)	(798,877)
Write-off	-	-	-
Charge for the year (note 15)	(70,369)	(32,754)	(103,123)
Closing balance at 31 December 2024	(579,778)	(322,222)	(902,000)
Net book value			
at 1 January 2023	194,540	99,880	294,420
at 31 December 2023	148,984	77,514	226,498
at 31 December 2024	110,190	61,162	171,352

Other intangible assets include licenses, investments in leased intangible assets, intangible assets in course of construction and other rights.

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### 33. Leases

#### a) Leases as lessee

	2024	2023
Right-of-use assets		
Land and buildings	121,360	120,877
Furniture and equipment	31,018	24,729
Motor vehicles	72,989	-
Total	225,367	145,606
Lease liabilities	240,391	163,037

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

The income statement shows the following amounts relating to leases:

	2024	2023
Depreciation of right-of-use-assets		
Land and buildings (note 31)	46,405	48,576
Furniture and equipment (note 31)	22,254	27,306
Motor vehicles (note 31)	3,660	-
Total	72,319	75,882
	2024	2023
Interest expense	4,934	2,486
Expenses relating to leases of low-value assets	16,219	11,969

The total cash flow for lease in 2024 was MKD 102,649 thousands (2023: MKD 94,575 thousands). From these amounts, MKD 86,430 thousands (2023: MKD 84,433 thousands) is for capitalized leases and MKD 16,219 thousands (2023: MKD 11,142 thousands) is for other leases.

The Bank does not have expenses relating to variable lease payments and gains or losses arising from sale and leaseback transactions.

The Bank has no restrictions or covenants imposed by leases, no sale and leaseback transactions and no lease agreements to which is committed, but not yet commenced.

Maturity analysis of lease liabilities is disclosed in note 3.3.3.

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

### 33. Leases (continued)

#### b) Leases as lessor

#### **Operating lease**

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2024	2023
Less then one year	8,498	12,218
From one to two years	1,594	8,359
From two to three years	1,591	1,631
From three to four years	1,591	1,442
From four to five years	1,591	1,442
Total	14,865	25,092

The Bank realised rental income arising from investment property in the amount of MKD 6,934 thousands (2023: MKD 6,946 thousands) and from own property in the amount of MKD 7,413 thousands (2023: MKD 7,425 thousands).

## 34. Other assets

	2024	2023
Pre-payments	14,703	12,241
Claims for taxes	1,583	4,782
Deferred expense	38,641	26,400
Inventories	27,646	28,894
Other	6,102	1,955
Total	88,675	74,272

As of 31 December 2024, the Bank has foreign exchange forward and swap contracts as financial assets with positive fair value of MKD 6,078 thousand (2023: MKD 1,931 thousands) presented in the line item "Other".

# 35. Financial liabilities measured at fair value through profit or loss

	2024	2023
Cash-settled share-based payment transactions	51,420	28,977
Total	51,420	28,977

# 36. Financial liabilities measured at amortised cost

Analysis by type

	2024	2023
Deposits from banks	391,309	395,293
Deposits from customers	106,780,501	92,386,176
Other borrowed funds	2,268,266	2,757,407
Subordinated liabilities	1,534,426	2,088,605
Other financial liabilities	1,261,941	1,568,064
Total	112,236,443	99,195,545

# 37. Deposits from banks

	2024	2023
Demand deposit	363,636	367,620
Restricted deposits	27,673	27,673
Total	391,309	395,293

# **Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# 38. Deposits from customers

	2024	2023
Companies		
- current/settlement accounts	26,387,045	22,552,687
- term deposits	744,903	706,283
- restricted deposits	337,560	536,200
Public institutions		
- current/settlement accounts	564,181	451,890
- term deposits	524	524
- restricted deposits	-	-
Retail customers		
- current/demand accounts	55,588,365	49,503,268
- term deposits	20,952,768	15,888,829
- restricted deposits	1,324,573	1,733,832
Financial institutions		
- current/settlement accounts	534,261	827,668
- term deposits	331,758	136,317
- restricted deposits	14,563	48,678
Total	106,780,501	92,386,176

# **39. Other borrowed funds**

Interest Rate (%)	2024	2023
0%, 1,5% 3mEURIBOR+0.75% with zero floor clause	1,764,232	2,144,524
0.5%	3,755	5,909
6mEURIBOR+1.50% with zero floor clause; 6mEURIBOR+1.60% with zero floor clause; 6mEURIBOR+1.70% with zero floor clause; 6mEURIBOR+1.80% with zero floor clause	500,279	606,974
	2,268,266	2,757,407
	0%, 1,5% 3mEURIBOR+0.75% with zero floor clause 0.5% 6mEURIBOR+1.50% with zero floor clause; 6mEURIBOR+1.60% with zero floor clause; 6mEURIBOR+1.70% with zero floor clause; 6mEURIBOR+1.80% with zero	0%, 1,5% 3mEURIBOR+0.75% with zero floor clause1,764,2320.5%3,7556mEURIBOR+1.50% with zero floor clause; 6mEURIBOR+1.60% with zero floor clause; 6mEURIBOR+1.70% with zero floor clause; 6mEURIBOR+1.80% with zero floor clause;500,279

On 31.12.2024 3mEURIBOR is 2.683% 6mEURIBOR is 2.577%

# Loans from Development Bank of North Macedonia (DBNM)

In 2024, the Bank withdrew funds from DBNM - one tranche of the EIB 7 credit line for green loans in the total amount of 515 thousand Euros.

The EIB credit lines and the credit line MSP PIA TOS by DBNM are secured with bills of exchange in a form of notary act and with an obligation of establishing a pledge of receivables. The Bank has established a pledge in form of notary act in favour of DBNM of the claims by the agreements for sub-credit concluded with the end users approved by the credit lines of EIB administered by DBNM and the credit line MSP PIA TOS. At 31.12.2024, the amount of borrowings for which the Bank has obligation to establish a pledge of receivables in favour of DBNM based on the credit lines amounts to 28,643 thousand Euros.

In 2024, the Bank withdrew two tranches of the IFAD 2 credit line in the total amount of 20 thousand Euros.

In November 2024, the Bank concluded Framework Agreement for participation in the credit line for support of green and socially responsible investments with funds provided by the French Development Agency, with the Development Bank of North Macedonia. No funds have been disbursed from this credit line until 31.12.2024.

# Loans from Ministry of finance (MF)

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

### 39. Other borrowed funds (continued)

## Loans from European Bank for Reconstruction and Development (EBRD)

In November 2024, the Bank concluded Agreement for a long-term loan in the amount of up to €4,000 thousand with the European Bank for Reconstruction and Development (EBRD) from the credit line Green Economy Financing Facility III - REpower Residential. The funds are intended for Green investments in the residential sector i.e. for Private individuals and groups of individuals, Housing associations, Service providers (including Housing Management Companies and ESCO), Vendors, Producers, Construction companies and Public Sub-borrowers.

In 2024, funds were withdrawn from EBRD in the total amount of 1,315 thousand EUR – 915 thousand Euros from the credit line of the European Bank for Reconstruction and Development (EBRD) SME Competitiveness Support Program, intended for further financing of investments of legal entities in industrial facilities, equipment, software, improvement of the management systems of the enterprise or a general upgrade that is created to advance one or more EU directives in the field of environmental protection, employee safety and product quality and safety, as well as investments in high-performance technologies; and additional 400 thousand Euros from the new credit line Green Economy Financing Facility III - REpower Residential intended for green investments in the residential sector.

The Bank has not provided any collateral for the EBRD credit lines.

As of 31.12.2024, the Bank is compliant with the financial covenants stated in the Agreements.

# 40. Subordinated liabilities

	2024	2023
Nova Ljubljanska Banka d.d.	1,534,426	2,088,605
Total	1,534,426	2,088,605

### Movement of subordinated liabilities

	2024	2023
At 1 January	2,088,605	2,763,800
Cash flow items:		
- new issued subordinated liabilities	615,369	-
- repayments of subordinated liabilities	(1,168,782)	(676,445)
- repayments of interest	(162,007)	(208,035)
Non-cash flow items:		
- accrued interest	142,894	239,066
- exchange difference	(92)	110
- other	18,439	(29,891)
At 31 December	1,534,426	2,088,605

On 20 December 2018, the Bank concluded a Subordinated Loan Agreement with Nova Ljubljanska Banka d.d. Ljubljana in the amount of EUR 9,000 thousand with interest rate of 6 months EURIBOR + 5.25% p.a. with zero floor clause and repayment period of 10 years (until 2028). On 21.06.2024, the Bank made an early repayment of the subordinated loan.

## 40.Subordinated liabilities (continued)

On 13 June 2019, the Bank concluded a Subordinated Loan Agreement with Nova Ljubljanska Banka d.d. Ljubljana in the amount of EUR 10,000 thousand to replace the subordinated loan from International Finance Corporation with an interest rate of 6 months EURIBOR + 4.10% p.a with zero floor clause and repayment period of 10 years (until 2029). On 30.12.2024, the Bank made an early repayment of the subordinated loan.

On 22 December 2021, the Bank concluded a Subordinated Loan Agreement with NLB d.d. in the amount of EUR 15,000 thousand, with an interest rate of 6 months EURIBOR + 4.49% p.a with zero floor clause and repayment period of 10 years (to 2031).

On 10.06.2024, the Bank concluded a Subordinated Loan Agreement with NLB d.d. Ljubljana in the amount of 10,000 thousand Euros which is considered to be Tier II capital according to the Decision on the Methodology for Determining Capital Adequacity, with an interest rate of 6m EURIBOR + 4.8% per annum with a Zero Floor clause and a repayment period of 10 years. (until 2034).

The line item "Other" in the table above contains withholding tax (WTH) and accumulated amortisation.

	2024	2023
Dividends declared and payable	30,862	23,937
Accruals	135,443	151,176
Temporary retained payment	602,537	504,786
Suppliers payables	42,792	43,798
Accounts for short-term liabilities for credit cards	5,016	558,708
Lease liabilities	240,391	163,037
Other	204,900	122,622
Total	1,261,941	1,568,064

# 41. Other financial liabilities

The line item "Temporary retained payment" consists mainly of obligations to customers for undistributed payments from abroad and the line item "Other" consists mainly from liabilities to insurance companies.

# **Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# 42. Provisions

#### Analysis and movement by type of provisions

	Provisions for off balance sheet items	Provisions for	Pensions and other post retirement benefit obligations	Provisions for other long term employee benefits	Total
At 1 January 2024	326,670	29,643	8,014	28,251	392,578
Provisions made (note 13 and 17)	407,173	-	1,169	3,039	411,381
Costs incurred	-	(20,100)	(312)	(3,235)	(23,647)
Provisions released (note 13 and 17)	(542,440)	-	-	(2,403)	(544,843)
Exchange differences	282	-	-	-	282
Increase in discounted amount (note 4)	-	-	527	1,623	2,150
Transfer to OCI (note 45)	-	-	1,295	-	1,295
At 31 December 2024	191,685	9,543	10,693	27,275	239,196
At 1 January 2023	280,737	55,740	6,322	24,821	367,620
Provisions made (note 13 and 17)	382,838	-	469	6,206	389,513
Costs incurred	-	(2,390)	(358)	(3,100)	(5,848)
Provisions released (note 13 and 17)	(337,001)	(23,707)	(51)	(1,287)	(362,046)
Exchange differences	96	-	-	-	96
Increase in discounted amount (note 4)	-	-	461	1,611	2,072
Transfer to OCI (note 45)	-	-	1,171	-	1,171
At 31 December 2023	326,670	29,643	8,014	28,251	392,578

Litigation is common in the banking sector, due to the nature of the business. The Bank is defendant in several lawsuits. The total value of the court procedures of third parties against NLB Banka is in the amount of MKD 607,526 thousand (2023: MKD 499,403 thousand). The management, the legal department of the Bank and the external lawyer, expects positive outcome of these lawsuits and the final outcome of these lawsuits will not materially affect the results of the Bank.

In 2024, the amount of provisions for contingent liabilities based on litigation has decreased compared to 2023 in the amount of MKD 20,100 thousand (2023: decrease of MKD 26,097 thousand), which provisions have been used for one court case. As of 31 December 2024, the balance of provisions for litigation of the Bank, for a total of two court cases is in the amount of MKD 9,542 thousand (2023: MKD 29,642 thousand).

# 42. Provisions (continued)

## Movements in provisions for guarantees and commitments

	Balance as at 1 Jan 2024	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Total transfers	Increases/ decreases	Changes in model / risk parameters	Foreign exchange and other movements	Balance as at 31 Dec 2024
12-month expected credit losses									
Guarantees and commitments	205,821	(6,522)	14,724	406	8,608	16,600	(98,413)	251	132,867
Life time ECL not credit impaired									
Guarantees and commitments	26,561	6,316	(15,759)	1,727	(7,716)	(16,644)	5,003	-	7,204
Life time ECL credit impaired									
Guarantees and commitments	94,288	206	1,035	(2,133)	(892)	(50,108)	8,295	31	51,614
Of which: Purchased credit- impaired financial assets	-	-	-	-	-	-	-	-	-

	Balance as at 1 Jan 2023	Transfer to/(from) stage 1	Transfer to/(from) stage 2	Transfer to/(from) stage 3	Total transfers	Increases/ decreases	model/risk	Foreign exchange and other movements	Balance as at
12-month expected credit losses									
Guarantees and commitments	171,053,000	(9,005)	9,204	3,011	3,211	79,571	(48,173)	159	205,821
Life time ECL not credit impaired									
Guarantees and commitments	21,217,000	8,929	(14,868)	2,258	(3,681)	10,289	(1,212)	(52)	26,561
Life time ECL credit impaired									
Guarantees and commitments	88,467,000	76	5,664	(5,269)	470	7,768	(2,406)	(11)	94,288
Of which: Purchased credit- impaired financial assets	-	-	-	-	-	-	-	-	-

# 42. Provisions (continued)

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

-	12-month expected credit losses	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance as at 1 January 2024	17,749,905	311,838	161,311	18,223,054
Increases/Decreases	616,677	(237,241)	(90,253)	289,183
Transfers	(150,701)	134,248	16,453	-
Balance as at 31 December 2024	18,215,881	208,845	87,511	18,512,237

	12-month expected credit	Lifetime ECL not	Lifetime ECL	
	losses	credit-impaired	credit-impaired	Total
Balance as at 1 January 2023	12,949,510	357,571	159,563	13,466,644
Increases/Decreases	4,989,104	(111,341)	(121,353)	4,756,410
Transfers	(188,709)	65,608	123,101	-
Balance as at 31 December 2023	17,749,905	311,838	161,311	18,223,054

# 43. Other liabilities

	2024	2023
Deffered income	40,819	39,216
Received advance payments	74	544
Taxes payable	8,257	4,059
Compensation benefits to the members of the Management Board and management	57,248	55,257
Liabilities for salaries	43,109	48,750
Liabilities for unused annual leaves	32,551	28,274
Other	-	3,093
Total	182,058	179,193

As of 31 December 2024, the Bank has no foreign exchange forward and swap contracts as financial liabilities with negative fair value of MKD 0 thousands (2023: 2,875 thousands) presented in the line item "Other".

# 44. Related party transactions

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

# 44. Related party transactions (continued)

# For the year ended on 31 December 2024:

31.12.2024	Parent bank	Associate	Management personnel and their related parties	Other related parties
Profit or loss				
Interest income	12,017	19,400	2,268	261
Fee and commission income	9,845	284	726	374
Interest expense	(181,493)	(197)	(2,735)	0
Fee and commission expense	(50,279)	-	(7)	(188)
Net gains/(losses) on financial instruments classified as held for trading	5,132	5	107	0
Other operating income	17,031	1,917	-	9,396
Other operating expenses	(44,284)	(2,798)	(5,136)	(45,728)
Balance sheet				
Cash and cash equivalents				
Balance at 1 January	227,120	-	-	59,766
Loans issued during the year		-	-	4,828,138
Loan repayments during the year	(14,663)	-	-	(4,819,957)
Balance at 31 December	212,457	-	-	67,947
Loans				
Balance at 1 January	-	407,941	371,251	184,657
Loans issued during the year	-	19,658	81,861	185,668
Loan repayments during the year	-	(111,594)	(380,530)	(370,325)
Balance at 31 December	-	316,005	72,582	-
Other financial assets				
Balance at 1 January	8,793	45,631	840	3,681
Other assets issued during the year	19,694	3,378	6,215	14,240
Other assets repayments during the year	(17,040)	(49,005)	(6,146)	(10,055)
Balance at 31 December	11,447	4	909	7,866
Deposits				
Balance at 1 January	217	14,742	269,360	14,503
Deposits received during the year	56	2,535,659	767,730	4,474,574
Deposits repaid during the year	-	(2,463,603)	(841,893)	(4,470,218)
Balance at 31 December	273	86,798	195,197	18,859

# 44. Related party transactions (continued)

	Parent bank	Associate	Management personnel and their related parties	Other related parties
Subordinated liabilities				
Balance at 1 January	2.088.605	-	-	-
Loans issued during the year	795.607	-	-	-
Loans repayments during the year	(1.349.786)	-	-	-
Balance at 31 December	1.534.426	-	-	-
Other borrowed funds				
Balance at 1 January	-	-	-	-
Loans issued during the year	-	-	-	-
Loans repayments during the year	-	-	-	-
Balance at 31 December	-	-	-	-
Other financial liabilities				
Balance at 1 January	22.937	143	23.357	9.924
Other liabilities issued during the year	49.190	2.890	1.677	16.668
Other liabilities repayments during the year	(63.599)	(2.881)	(9.495)	(17.498)
Balance at 31 December	8.528	152	15.539	9.094

# 44. Related party transactions (continued)

## For the year ended on 31 December 2023:

31.12.2023	Parent bank	Associate	Management personnel and their related parties	Other related parties
Profit or loss				
Interest income	5,040	14,085	6,582	1
Fee and commission income	13,361	-	918	402
Interest expense	(232, 289)	-	(1,379)	-
Fee and commission expense	(53,803)	-	(8)	(550)
Net gains/(losses) on financial instruments classified as held for trading	(1,992)	4	133	-
Other operating income	9,344	1,205	65	4,910
Other operating expenses	(76,013)	-	(4,953)	(110,220)
Balance sheet				
Cash and cash equivalents				
Balance at 1 January	486,162	-	-	110,248
Loans issued during the year	148,154,395	125,846		6,665,471
Loan repayments during the year	(148,413,437)	(125,846)		(6,715,953)
Balance at 31 December	227,120	-	-	59,766
Loans			440.400	404.070
Balance at 1 January	-	-	112,436	184,673
Loans issued during the year	3,599,910	549,572	415,699	2,222,292
Loan repayments during the year	(3,599,910)	(141,631)	(156,884)	(2,222,308)
Balance at 31 December	•	407,941	371,251	184,657
Other financial assets				
Balance at 1 January	1,674	16,009	656	3,630
Other assets issued during the year	32,527	50,578	4,497	1 <mark>1</mark> ,793
Other assets repayments during the year	(25,408)	(20,956)	(4,313)	(11,742)
Balance at 31 December	8,793	45,631	840	3,681
Deposits				
Balance at 1 January	167	28,606	254,185	6,426
Deposits received during the year	1,720,833	1,033,682	1,063,000	5,284,286
Deposits repaid during the year				
Depeette tepata aaning the Jean	(1,720,783)	(1,047,546)	(1,047,825)	(5,276,209)

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

### 44. Related party transactions (continued)

	Parent bank	Associate	Management personnel and their related	Other related parties
			parties	
Subordinated liabilities				
Balance at 1 January	2,763,800	-	-	-
Loans issued during the year	1,169	-	-	-
Loans repayments during the year	(676, 364)	-	-	-
Balance at 31 December	2,088,605	•	-	-
Other borrowed funds				
Balance at 1 January	-	-	-	-
Loans issued during the year	-	-	-	-
Loans repayments during the year	-	-	-	-
Balance at 31 December	-	•	-	-
Other financial liabilities				
Balance at 1 January	16,279	•	26,691	8,030
Other liabilities issued during the year	1,854,723	141,917	(2,468)	40,717
Other liabilities repayments during the year	(1,848,065)	(141,774)	(866)	(38,823)
Balance at 31 December	22,937	143	23,357	9,924

## Transaction with key management personnel

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

	2024	2023
Executive directors	240,538	205,021
Non-executive directors	1,108	1,108
	241,646	206,129

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

**Financial statements in accordance with IFRS for the year ended 31 December 2024** (All amounts in MKD thousands unless otherwise stated)

# 45. Share capital

	Number of shares	Ordinary shares	Share premium	Non-voting shares	Total
At 1 January 2023	854,061	854,061	2,274,484	-	3,128,545
At 31 December 2023	854,061	854,061	2,274,484	-	3,128,545
At 31 December 2024	854,061	854,061	2,274,484	-	3,128,545

The authorized share capital of the Bank consists of 854,061 ordinary shares (2023: 854,061 ordinary shares). Ordinary shares have a par value of MKD 1 thousand (2023: MKD 1 thousand). All issued shares are fully paid.

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

As of 31.12.2024 and 31.12.2023, the Bank does not own any own shares.

In accordance with the Bank's share book, as of 31.12.2024, 796 ordinary shares or 0.0932 % of the total share capital of the Bank (2023: 796 ordinary shares or 0.0932 %) have restricted voting rights based on law and/or decision of a competent authority.

The Bank paid dividends for 2024 in amount of MKD 2,251,305 thousand (2023: MKD 2,076,222 thousand).

The dividend per ordinary shares for 2024 is MKD 2,636 (2023: MKD 2,431).

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

	% of voting share capit		
Shareholders	2024	2023	
Nova Ljubljanska banka d.d., Ljubljana	86.97%	86.97%	

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

After the balance sheet date, no dividends were declared.

### **Revaluation Reserve**

The revaluation reserve includes the cumulative net effect of the changes in the fair value of investments measured at fair value through other comprehensive income until the moment of their derecognition or impairment.

Gains and losses arising from changes in the fair value and the balance of the impairment accounts of debt securities measured at fair value through other comprehensive income are recognised directly in Revaluation reserves.

The Bank in accordance with IAS 19 recognises revaluation reserve for post-employment benefits for actuarial gains and losses from the effect of changes in actuarial assumptions and experience adjustments (differences between the realised and expected payments) and will not be recycled to the income statement.

Revaluation reserves reflect the changes in actuarial assumptions for the retirement bonuses as a difference from the previous actuarial calculation and the new actuarial calculation that includes the effect of the events that really happened in the period. Such experiential changes that are recorded in revaluation reserves are: changes in financial assumptions (discount rate, expected rate of return, levels of future wages and benefits), change in demographic indicators, change in experiential assumptions, etc.

# 45.Share capital (continued)

	2024	2023
Revaluation reserve from long-term employee benefits	(1,145)	150
Revaluation reserve FA at FVOCI - equity instruments	134,687	108,231
Revaluation reserve FA at FVOCI - debt instriments	(63,383)	(145,823)
Impairment - FA at FVOCI - debt instruments	10,501	15,640
Total	80,660	(21,802)

Movements in revaluation reserve were as follows:

	2024	2023
At 1 January	(21,802)	(234,547)
Actuarial gains/(losses) for post-employment benefits	(1,295)	(1,171)
Net gains/(losses) from changes in fair value of FA FVOCI - equity instruments	26,456	16,650
Net gains/(losses) from changes in fair value of FA FVOCI - debt instriments	82,440	201,133
Net gains/(losses) from impairment of FA FVOCI - debt instriments	(5,139)	(3,867)
At 31 December	80,660	(21,802)

### **Retained earnings**

One part of retained earnings is reinvested earning from previous year, which was separate with the distribution of profit and is for investments in the next year in tangible and intangible assets, to use the tax relief for the investments made. According to the decision, in 2024 the Bank separated the amount of MKD 231,000 thousands for investments (2023: MKD 180,000 thousands), and the used amount of investment MKD 171,862 thousands (2023: MKD 40,525 thousands) is used for tax relief.

### Other reserves

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

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

#### Other equity instruments issued

Upon initial recognition, other equity instruments are classified in part or in whole as equity instruments if the contractual characteristics of the instruments are such that the Bank must classify them as equity instruments in accordance with IAS 32 - Presentation of Financial Instruments. An issued financial instrument is considered to be equity instrument only if that instrument does not constitute a contractual obligation to pay cash or transfer another financial asset.

## 45.Share capital (continued)

Issued financial instruments with capital characteristics are recognized in equity in the Statement of financial position. Expenses directly related to the issuance of a financial instrument should be recorded in Retained earnings. For financial instruments denominated in foreign currency, exchange rate differences from subsequent measurements of the condition of the instruments are recorded in Retained earnings.

No gain or loss shall be recognized in the Income statement on the purchase, sale, issuance or cancellation of the Bank's equity instruments. Interest on such instruments is recognized directly in retained earnings and is paid out of the profits available for distribution.

On 06.08.2024, the Bank entered into a New Subordinated Loan Agreement in the amount of EUR 10,000 thousand with NLB d.d. Ljubljana, which is considered as an Additional equity capital Tier I capital.

The main conditions of Tier I Capital are as follows:

- interest rate of 12-month EURIBOR + 7.06% per annum, with a Zero Floor clause;
- interest is payable upon prior decision of the Bank's Supervisory Board. The Bank shall have full discretion, at any time, to cancel, in whole or in part, any payment of interest on an indefinite period and on a non-cumulative basis;
- the loan has no maturity date;
- in the event of bankruptcy or liquidation of the Bank, payable on instruments that are part of the Bank's additional capital;
- the exercise of the repaid option is the discretion of the Bank only;
- in the event of a critical event, the principal value of this instrument is written off or reduced on a permanent or temporary basis or the instrument is converted into an instrument of common equity capital;

the instrument may be repaid only in the event of bankruptcy and liquidation of the Bank or upon obtaining the consent of the Supervisory Board.

### 46.Earnings per share

The calculation of earnings per share for the year ended 31 December 2024 was based on the net profit attributable to ordinary shareholders of MKD 4,153,780 thousands (2023: MKD 2,720,191 thousands) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2024 of 854,061 shares (2023: 854,061 shares). The calculation of the basic earnings per share is:

	2024	2023
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands MKD)	4,153,780	2,720,191
Weighted average number of shares for basic and diluted earnings per share	854,061	854,061
Basic earnings per share (in MKD)	4,864	3,185
Diluted earnings per share (in MKD)	4,864	3,185

# 46. Earnings per share (continued)

The calculation of the weighted average number of ordinary shares for the years ended 31 December 2024 and 2023 is as follows:

	2024	2023
Issued ordinary shares at 1 January	854,061	854,061
At 31 December	854,061	854,061

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

## 47. Changes in liabilities arising from financing activities

01 January 2024		Cash inflows	Cash outflows	Foreign exchange movement	Effective interest rate accruals	Other	31 December 2024
Current interest-bearing subordinated loans	(2,225)	-	(162,007)	2	161,333	-	(2,897)
Non-current interest- bearing subordinated loan	2,090,830	615,369	(1,168,782)	(94)	-	-	1,537,323
Dividends payable	24,512	-	(2,244,132)	-	-	2,250,482	30,862
Total liabilities from financing activities	2,113,117	615,369	(3,574,921)	(92)	161,333	2,250,482	1,565,288

01 January 2023		Cash inflows	Cash outflows	Foreign exchange movement	Effective interest rate accruals	Other	31 December 2023
Current interest-bearing subordinated loans	(3,394)	-	(208,035)	30	209,174	-	(2,225)
Non-current interest- bearing subordinated loan	2,767,194	-	(676,444)	80	-	-	2,090,830
Dividends payable	18,262	-	(2,069,970)	-	-	2,076,251	24,512
Total liabilities from financing activities	2,782,062	-	(2,954,449)	110	209,175	2,076,251	2,113,117

# 48. Subsequent events

After 31.12.2024 – the reporting date, until the date of the approval of these financial statements, there are not events that would cause correction of the financial statements, nor additional events other than those disclosed above that are materially significant to be disclosed in these financial statements.

### Governing bodies

The procedure for the appointment of Mrs. Katerina Jankovikj as a member of the Management Board of NLB Banka AD Skopje was conducted during 2024, while the decision on her appointment entered into force on 29.01.2025, after the approval of the National Bank of the Republic of North Macedonia for the appointment of Ms. Katerina Janković as a member of the Management Board. With the adopted decision, the composition of the number of the Management Board is increased from three to four members.

# 48. Subsequent events (continued)

On March 17th, 2025 the National Bank of the Republic of North Macedonia has issued a Decision granting prior consent for Mrs. Hedvika Usenik to be appointed as member of the Supervisory Board of NLB Banka AD Skopje, with a term until 30.08.2025.

With the issuance of the Decision from NBRNM, the mandate of Mr. Blaz Brodnjak, the current President of the Supervisory Board of NLB Banka AD Skopje, is terminated.



# Annual Shareholders Assembly of NLB Banka AD Skopje

Proposal-Decision to adopt the Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024 with the Opinion of the Supervisory Board regarding the Report

Pursuant to Article 39 paragrap 1 of the Statute of NLB Banka AD Skopje, the Assembly of NLB Banka AD Skopje adopted the following:

Decision to adopt the Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024 with the Opinion of the Supervisory Board regarding the Report

- The Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024 with the Opinion of the Supervisory Board regarding the Report is adopted, annex to this decision;
- 2. The decision comes into force on the day of adoption.

In Skopje, 29.05.2025

The decision shall be submitted to: Secretariat Financial Accounting and Reporting Department

> Chairman of the Annual Shareholders Assembly of NLB Banka AD Skopje



# **Executive Summary**

The Supervisory Board of NLB Banka AD Skopje has given a written opinion on the Report by the auditing company Audit Company KPMG Audit DOO Skopje on the conducted audit of the financial statements of NLB Banka AD Skopje, in accordance with the International Financial Reporting Standards (IFRS) for 2024 and it is an integral part of the Report.