STOPANSKA BANKA AD – Skopje

Consolidated Financial Statements
Year Ended December 31, 2022 and
Independent Auditors' Report

CONTENTS

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Management of STOPANSKA BANKA AD – Skopje (the "Bank") and its subsidiary (the "Group") is responsible for ensuring that the consolidated financial statements as at and for the year ended December 31, 2022, have been prepared in accordance with International Financial Reporting Standards ("IFRS") , which give a true and fair view of the financial position and the results of the Group for the year.

After making enquiries, the Management of the Group has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management of the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing these consolidated financial statements, the responsibilities of the Management of the Group, include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- The consolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management of the Group is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must ensure that the consolidated financial statements comply with IFRS. Management of the Group is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of STOPANSKA BANKA AD – Skopje:

Mr. Diomidis Nikoletopoulos

Chief Executive Officer,
Chairman of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska

Chief Retail Officer,
Member of the Board of Directors

Mr. Toni Stojanovski

Chief Corporate Officer,
Member of the Board of Directors

Mr. Bojan Stojanoski

Chief Risk Officer,
Member of the Board of Directors

pwc

Independent auditor's report

To the Shareholders and Supervisory Board of Stopanska Banka AD Skopje

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Stopanska Banka AD Skopje (the "Bank"), which comprise the consolidated statement of financial position as of 31 December 2022 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Standards on auditing applicable in the Republic of North Macedonia (the "Standards"). The Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Stopanska Banka AD Skopje as of 31 December 2022, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

Dragan Davitkov
General Manager

Sime Jovanovski
Certified Auditor

PricewaterhouseCoopers Revizija DOO Skopje

04 August 2023
Skopje, Republic of North Macedonia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2022
(In thousands of Denars)

	Notes	2022	2021
Interest income calculated using the effective interest method		4,265,464	3,979,965
Interest expense		(198,270)	(243,788)
Net interest income	6	**4,067,194**	**3,736,177**
Fee and commission income		1,521,304	1,439,240
Fee and commission expense		(622,666)	(607,750)
Net fee and commission income	7	**898,638**	**831,490**
Trading gains less losses	8	26	(696)
Foreign exchange translation gains less losses	9	157,532	110,078
Other operating income	10	82,933	51,574
Credit loss allowance and other impairment charges	11	(807,952)	(799,399)
Personnel expenses	12	(954,348)	(889,942)
Depreciation and amortization	13	(179,993)	(170,779)
Other operating expenses	14	(817,829)	(736,436)
Profit before tax		**2,446,201**	**2,132,067**
Income tax expense	15	(235,692)	(221,245)
Profit for the year		**2,210,509**	**1,910,822**
Other comprehensive income/(expense)			
Gains less losses on investments in Debt securities at fair value through other comprehensive income ("FVTOCI"), net of tax		(5,826)	240
Total of items that may be reclassified subsequently to income statement		**(5,826)**	**240**
Gains less losses on investments in equity securities at fair value through other comprehensive income, net of tax		7,372	3,966
Remeasurement of the defined benefits liabilities, net of tax	31	(1,938)	(819)
Total of items that will not be reclassified subsequently to income statement		**5,434**	**3,147**
Other comprehensive income / (expense) for the year, net of tax		**(392)**	**3,387**
Total comprehensive income for the year		**2,210,117**	**1,914,209**
Profit attributable to:			
Owners of the Bank		2,210,509	1,910,822
Total comprehensive income attributable to:			
Owners of the Bank		2,210,117	1,914,209
Earnings per share	32		
Basic (in Denars)		126.6	109.4
Diluted (in Denars)		126.6	109.4

The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements have been approved by the management of the Group on July 31, 2023 and accepted by the Group's Supervisory Board.

Signed on behalf of STOPANSKA BANKA AD – Skopje:

Mr. Diomidis Nikoletopoulos
Chief Executive Officer,
Chairman of the Board of Directors

Mr. Toni Stojanovski
Chief Corporate Officer,
Member of the Board of Directors

СКОПЈЕ
01

Mrs. Milica Chaparovska – Jovanovska
Chief Retail Officer,
Member of the Board of Directors

Mr. Bojan Stojanoski
Chief Risk Officer,
Member of the Board of Directors

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At December 31, 2022
(In thousands of Denars)

	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and balances with the central bank at amortized cost	16	22,469,444	20,867,795
Financial assets at fair value through profit and loss	17	2,021	1,999
Investment securities at fair value through other comprehensive income	18	690,361	2,146,529
Investment securities at amortized cost	19	9,677,727	10,131,180
Placement with, and loans to banks at amortized cost	20	297,437	278,118
Loans to customers at amortized cost	21	86,707,636	79,096,640
Investments in subsidiaries		15,000	-
Other assets	22a	1,289,998	306,277
Other receivables	22b	1,545,813	1,531,040
Investment property	23	8,476	9,038
Intangible assets	24	152,424	125,429
Property and equipment	25	1,035,799	907,561
Total assets		**123,892,136**	**115,401,606**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	26	2,902,315	1,425,336
Deposits from customers	27	94,393,757	89,673,431
Loans payable	28	1,930,696	1,686,298
Other liabilities	29	1,397,848	1,457,896
Income tax payable		892	72,595
Deferred tax liabilities	15.1	99,029	120,874
Provisions	30	75,747	83,441
Total liabilities		**100,800,284**	**94,519,871**
EQUITY			
Share capital	31	3,511,242	3,511,242
Reserves		843,670	844,062
Retained earnings		18,736,940	16,526,431
Total equity		**23,091,852**	**20,881,735**
Total liabilities and equity		**123,892,136**	**115,401,606**
Commitments and contingencies	34	**21,069,990**	**17,561,271**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2022
(In thousands of Denars)

	Share capital	Revaluation reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2021	3,511,242	9,302	830,290	1,083	14,615,609	18,967,526
Other comprehensive income for the year, net of tax	-	3,387	-	-	-	3,387
Profit for the year	-	-	-	-	1,910,822	1,910,822
Total comprehensive income for the year	-	3,387	-	-	1,910,822	1,914,209
Balance, December 31, 2021	**3,511,242**	**12,689**	**830,290**	**1,083**	**16,526,431**	**20,881,735**
Balance, January 1, 2022	3,511,242	12,689	830,290	1,083	16,526,431	20,881,735
Other comprehensive income for the year, net of tax	-	(392)	-	-	-	(392)
Profit for the year	-	-	-	-	2,210,509	2,210,509
Total comprehensive income for the year	-	(392)	-	-	2,210,509	2,210,117
Balance, December 31, 2022	**3,511,242**	**12,297**	**830,290**	**1,083**	**18,736,940**	**23,091,852**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2022
(In thousands of Denars)

	2022	2021
Profit before tax	2,446,201	2,132,067
Adjustments for:		
Non-cash items included in income statement and other adjustments:		
Depreciation of property and equipment	76,308	69,671
Depreciation of investment property	562	562
Amortization of intangible assets	53,596	53,139
Depreciation of Right of Use (“RoU”) assets	49,527	47,407
Gain on sale of property and equipment, net	(26,999)	(27)
Gain on sale of foreclosure assets, net	(5,534)	(15,099)
Interest income	(4,265,464)	(3,979,965)
Interest expense	198,270	243,788
Trading gains less losses	(26)	696
Credit loss allowance	807,143	799,399
Impairment losses on non-financial assets	809	-
Dividend income from investment securities	(1,675)	(831)
Provision for employee benefits, net	3,664	2,967
Provision for litigation, net	(6,920)	354
Cash flows from operating activities:		
Interest receipts	4,424,750	4,295,815
Interest paid	(226,113)	(262,134)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities	**3,528,099**	**3,387,809**
Net (increase)/decrease of operating assets:		
Financial assets through profit and loss	4	3
Due from banks	(19,615)	(54,206)
Loans to customers	(8,627,689)	(7,661,650)
Mandatory reserves and restricted deposits according NBRNM regulations	(1,420,477)	(141,891)
Other receivables	(299,817)	60,161
Net increase/(decrease) of operating liabilities:		
Deposits from banks	1,474,426	1,187,530
Deposits from customers	4,750,714	3,069,110
Other liabilities	(7,130)	250,967
Net cash flows generated from operating activities before income tax	**(621,485)**	**97,833**
Income tax paid	(313,865)	(126,370)
Net cash flows (used in)/generated from operating activities	**(935,350)**	**(28,537)**

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2022
(In thousands of Denars)

	2022	2021
Cash flows from investing activities		
Outflow for establishing new subsidiary/ Investment in subsidiary	(15,000)	-
Payment for investment in buildings	(678,392)	-
Acquisition of property and equipment	(256,554)	(131,693)
Proceeds from sale of property and equipment	29,480	124
Acquisition of intangible assets	(81,006)	(27,811)
Acquisition Investments in securities at FVOCI	(609,730)	(7,209,492)
Proceeds from disposal and redemption of investments in securities at FVOCI	2,066,484	2,207,241
Acquisition Investments in securities at amortized cost	(1,275)	(3,037,385)
Proceeds from redemption of investments in securities at amortized cost	462,207	10,458,837
Dividend received	1,675	831
Net cash flows generated from/(used in) investing activities	**917,889**	**2,260,652**
Cash flows from financing activities		
Proceeds from loan payables	252,116	1,189,514
Repayment of loan payables	(7,718)	(32,756)
Repayment of principal of lease liabilities	(45,765)	(40,532)
Net cash flows generated from financing activities	**198,633**	**1,116,226**
Net increase/(decrease) of cash and cash equivalents	**181,172**	**3,348,341**
Cash and cash equivalents, beginning of the year	17,050,869	13,702,528
Cash and cash equivalents at the end of the year	**17,232,041**	**17,050,869**

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

STOPANSKA BANKA AD – Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is St. 11 Oktomvri 7, 1000 Skopje. The Bank operates in the RNM with a network of 62 branches (2021: 64 branches).

The Bank is registered as a universal type of commercial bank in accordance with the Republic of North Macedonia Laws.

The Bank may perform the following activities:

- accept deposits and other repayable sources of funds,
- lend in the country, including factoring and financing commercial transactions,
- lend abroad, including factoring and financing commercial transactions,
- issuance and administration of means of payment (payment cards, checks, traveler's checks, bills of exchange),
- financial leasing,
- currency exchange operations,
- domestic and international payment operations, including purchase and sale of foreign currency,
- fast money transfer,
- issuance of payment guarantees, backing guarantees and other forms of collateral,
- lease of safe deposit boxes, depositories and depots,
- trade in instruments on the money market (bill of exchange, checks, deposit certificates),
- trade in foreign assets, including trade in precious metals,
- trade in securities,
- trade in financial derivatives,
- provides custodian services for investment and pension funds,
- purchase and sale, underwriting or placement of securities issue,
- custody of clients' securities,
- giving advices to legal entities in relation to the structure of capital, business strategy or other related issues, or providing services related to merging or acquisition of legal entities,
- sale of insurance policies,
- intermediation in concluding credit and loan agreements,
- process and analyze information on the legal entities' creditworthiness,
- economic and financial consulting,
- representation in insurance;
- marketing of mandatory / voluntary pension fund, and
- other financial services specified by law allowed to be performed exclusively by a bank.

The Bank is controlled by National Bank of Greece, incorporated in Greece, which has 94.64% (2021: 94.64%) shareholding in the Bank and represents its ultimate parent company. The shares of the Bank are not listed on the Regular Market on the Macedonian Stock Exchange (MSE), but are listed on MSE on the Market of publicly held companies with the special disclosure requirements and the ID quotation code is the following:

Symbol	ISIN code
STB (common shares)	MKSTBS101014
STBP (preference shares)	MKSTBS120014

During 2022 the Leasing Company STOPANSKA LIZING DOOEL SKOPJE has been established to provide financial leasing and operational leasing of vehicles, equipment, real estate and other. STOPANSKA BANKA AD – Skopje has 100% ownership of the leasing company.
The Bank prepared consolidated financial statements, in which the new subsidiary is accounted for at cost based on materiality, as it considers the total assets, liabilities, equity and reserves, revenues and expenses of the Leasing Company as not material.

The Group's consolidated financial statements for the year ended December 31, 2022 have been approved by the management of the Group on July 31, 2023 and accepted by the Group's Supervisory Board.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Statement on compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the International Accounting Standards Board (the" IASB").
The IFRS accounting policies set below have been consistently applied by the Bank to all periods presented in these consolidated financial statements. The accompanying consolidated financial statements are the Bank's consolidated financial statements.

(b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for fair value through other comprehensive income financial assets, financial assets (included derivative financial instruments) held at fair value through profit or loss which have been measured at fair value. These consolidated financial statements have been also prepared under the going concern assumption.

(c) Functional and reporting currency

The consolidated financial statements are presented in Denars which is the Group's functional currency. All financial information is presented in Denars rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in Note 3.22 to the consolidated financial statements.

A summary of the principal accounting policies applied in preparing the IFRS consolidated financial statements are set out within Note 3 to the consolidated financial statements.

(e) Standards and Interpretations effective in the current period

The following new amendments to the existing standards issued by the International Accounting Standards Board are effective for current financial period, but did not have any material impact on the Group:

- **IFRS 16 (Amendment): COVID-19-Related Rent Concessions** (effective for annual periods beginning on or after 1 April 2021 and effective for the Financial Statements from 1 January 2022). The amendment extends the application period of the practical expedient in relation to rent concessions by one year to cover rental concessions that reduce leases due only on or before 30 June 2022. The adoption of this amendment did not have a material impact on the annual consolidated financial statements.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(e) Standards and Interpretations effective in the current period (Continued)

- **IFRS 3 (Amendments): Reference to the Conceptual Framework** (effective for annual periods beginning on 1 January 2022). The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The adoption of these amendments did not have any effect on the annual consolidated financial statements.
- **IAS 16 (Amendments): Property, Plant and Equipment: Proceeds before Intended Use** (effective for annual periods beginning on 1 January 2022). The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in the Income Statement. The adoption of these amendments did not have any effect on the annual consolidated financial statements.
- **IAS 37 (Amendments): Onerous Contracts: Cost of Fulfilling a Contract** (effective for annual periods beginning on 1 January 2022). The amendments specify which costs a company includes when assessing whether a contract will be loss-making. The adoption of these amendments did not have a material impact on the annual consolidated financial statements.
- **Annual Improvements to IFRS Standards 2018–2020 Cycle** (effective for annual periods beginning on or after 1 January 2022, as issued by the IASB). The amendments applicable to the Group and the Bank are:

  IFRS 9 Financial Instruments: Fees in the ‘10 per cent’ test for derecognition of financial liabilities. The amendment clarifies which fees an entity includes when it applies the ‘10 per cent’ test in assessing whether to derecognize a financial liability. Only fees paid or received between the entity (the borrower) and the lender are included, including fees paid or received by either the entity or the lender on the other’s behalf. The adoption of this amendment did not have a material impact on the annual consolidated financial statements.

  IFRS 16: Lease Incentives. The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor, in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example. The adoption of this amendment did not have a material impact on the annual consolidated financial statements.

New Standards and amendments effective after 2022

At the date of authorization of these consolidated financial statements the following new standards and amendments to existing standards were in issue:

- **IFRS 17 Insurance Contracts** (effective for annual periods beginning on or after 1 January 2023). IFRS 17 was issued in May 2017, including amendments issued in June 2020 and supersedes IFRS 4. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of this standard and its objective is to ensure that an entity provides relevant information that faithfully represents those contracts. The new standard solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. Insurance obligations will be accounted for using current values instead of historical cost.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(f) New Standards and amendments effective after 2022 (Continued)

- **IAS 1 and IFRS Practice Statement 2 (Amendments): Disclosure of Accounting Policies** (effective for annual reporting periods beginning on or after 1 January 2023). The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'Four-Step Materiality Process'. The Group and the Bank are currently assessing the impact of this amendment, but taking into account the fact that the significant accounting policies disclosed in Note 3 "Summary of significant accounting policies" include all material accounting policies, the Group and the Bank expect to disclose fewer accounting policies for the annual reporting period beginning 1 January 2023.

- **IAS 8 (Amendment): Definition of Accounting Estimates** (effective for annual reporting periods beginning on or after 1 January 2023). The amendment replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

- **IAS 12 (Amendments): Deferred Tax related to Assets and Liabilities arising from a Single Transaction** (effective for annual reporting periods beginning on or after 1 January 2023). These amendments clarify and narrow the scope of the exemption provided by the IAS 12 "Income Taxes" standard allowing institutions to not recognise any deferred tax during the initial recognition of an asset and a liability. All leases and decommissioning obligations are excluded from the exemption scope for which companies recognise both an asset and a liability and will now have to recognise deferred taxes. From the date of first application of IFRS 16 "Leases", the Group has considered the right of use assets and the lease-related liabilities as a single transaction. Consequently, on the initial recognition date, the amount of deferred tax asset offsets the amount of deferred tax liability. The net temporary differences resulting from later variations in the right of use assets and lease liabilities subsequently result in a deferred tax asset as of 1 January 2023 which is subject to the recoverability criteria of IAS 12 "Income Taxes". There was no impact on the consolidated financial statements from the adoption of these amendments.

- **IFRS 17 (Amendment): Initial Application of IFRS 17 and IFRS 9 – Comparative Information** (effective for annual periods beginning on or after 1 January 2023). The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for the users of financial statements

- **IFRS 16 (Amendment): Lease Liability in a Sale and Leaseback** (effective for annual periods beginning on or after 1 January 2024). The amendment clarifies how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. The requirements are applied retrospectively back to sale and leaseback transactions that were entered into after the date of initial application of IFRS 16.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(f) New Standards and amendments effective after 2021 (Continued)

- **IAS 1 (Amendment): Classification of liabilities as current or non** (effective for annual periods beginning on or after 1 January 2024). The amendments clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. The amendments also clarify that the classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

- **IAS 1** (Amendment): Non-current Liabilities with Covenants (effective for annual periods beginning on or after 1 January 2024). The new amendments clarify that if the right to defer settlement is subject to the entity complying with specified conditions (covenants), this amendment will only apply to conditions that exist when compliance is measured on or before the reporting date. Additionally, the amendments aim to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period.

- **Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendment to IFRS 4).** The amendment, which has been endorsed by the EU, introduces two approaches. The amended standard will: a) give all companies that issue insurance contracts the option to recognise in the Statement of Other Comprehensive Income, rather than in the Income Statement, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued (i.e. the difference between the amounts that would be recognized in the income statement in accordance with IFRS 9 and the amounts recognized in the income statement in accordance with IAS 39) – “overlay approach” and b) give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021 – “deferral approach”. The entities that defer the application of IFRS 9 will continue to apply IAS 39.

  The Amendment ‘Extension of the Temporary Exemption from Applying IFRS 9 (effective for annual periods beginning on or after 1 January 2021) extended the expiry date of the extension described above from 1 January 2021 to 1 January 2023.

The Group expects that the above new standards amendments would not have material impact on its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all instruments measured at amortized cost or FVTOCI using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of financial asset and amortised cost of financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation takes into account the contractual interest rate, along with any fees or incremental costs that are directly attributable to the instrument and all other premiums or discounts.

When a financial asset becomes credit-impaired (classified in Stage 3), interest income is calculated on the amortized cost (i.e. the gross carrying amount adjusted for the impairment allowance).

Except for purchased or originated financial assets that are credit-impaired (“POCI”) on initial recognition, expected credit losses (“ECL”) are not considered in the calculation of the EIR. For a POCI financial asset, the credit-adjusted EIR is applied when calculating the interest revenue and it is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset’s amortized cost. The Group includes the initial ECL in the estimated cash flows when calculating the credit-adjusted EIR for such assets.

3.2 Fee and commission income

Fees and commissions, except the fees on approval of loans, are generally recognized on an accrual basis when the customer simultaneously receives and consumes the benefits provided by the Group’s performance. Fee and commission income includes asset management fees, commission fees and credit card fees. Asset management fees are recognized based on time elapsed, which depicts the rendering of investment management services over time. Commission income includes sales and brokerage commissions, which are recognized at a point in time when the transaction is executed.

Other fees relating to servicing the loans are deferred over the life of the loan on a straight-line basis.

3.3 Dividend income

Dividend income is recognized when the right to receive payment is established for all shareholders who participate in income distribution.

3.4 Foreign exchange translation

Transactions denominated in foreign currencies have been translated into Denars at rates set by the National Bank of the RNM (“NBRNM”) at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the balance sheet date using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the statement of comprehensive income. Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets

(a) Classification and Measurement of financial instruments

Classification of financial assets

The Group uses the following measurement categories for financial assets:

- Debt instruments at amortized cost.
- Debt instruments at fair value through other comprehensive income (FVTOCI) with cumulative gains and losses reclassified to profit and loss on derecognition.
- Equity instruments designated as measured at FVTOCI with gains and losses remaining in other comprehensive income (OCI) without recycling to income statement on derecognition.
- Debt instruments, derivatives, equity instruments at fair value through the profit and loss (FVTPL).

Debt instruments, except for those designated at initial recognition as at FVTPL, are classified at amortized cost or FVTOCI on the basis of:

- the Group's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial asset.

Business model assessment

The business models reflect how the Group manages its debt financial assets in order to generate cash flows. This assessment is performed on the basis of scenarios that the Group reasonably expects to occur. The assessment is based on all relevant and objective information that is available at the time of the business model assessment. The Group has identified the following business models for debt financial assets:

- Held to collect contractual cash flows ("HTC"): The Group's objective is to hold the financial assets and collect the contractual cash flows. All the assets in this business model give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Debt instruments classified in this business model are measured at amortized cost.
- Held to collect contractual cash flows and sell ("HTCS"): The objective of this business model is to meet everyday liquidity needs and such objective is achieved by both collecting contractual cash flows and selling debt instruments. Assets within this business model are not sold with the intention of short-term profit taking, however frequent sales may occur and such sales may be significant in value. All the assets in this business model give rise to cash flows that are SPPI. The debt instruments in this business model are accounted for at FVTOCI.
- Held for trading ("HFT"): Under this business model, the Group actively manages the instruments in order to realize fair value gains arising from changes in credit spreads and yield curves. The assets in this business model are accounted for at FVTPL.

Contractual cash flow characteristics

The Group assesses the characteristics of its financial assets' contractual cash flows at initial recognition in order to determine whether they are SPPI. This is referred to as the "SPPI test". Interest amount within a basic lending arrangement, is typically the consideration for the time value of money and the credit risk. Interest may also include consideration for other basic lending risks such as liquidity and costs (e.g. administration associated with holding the financial asset for a particular period of time), as well as a profit margin

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

(a) Classification and Measurement of financial instruments (Continued)

Measurement of financial assets

- **Financial assets measured at amortized cost**

A debt financial asset is measured at amortized cost if it is held in a business model that has an objective to hold financial assets to collect contractual cash flows and the contractual terms of the financial asset result in cash flows that pass the SPPI test.
The financial assets classified within this category, mainly include the following asset classes:

- Cash and balances with central banks
- Sight and time deposits with banks
- Securities purchased under agreements to resell
- Deposits in margin accounts
- Receivables due from banks
- Loans and advances to customers
- Debt securities
- Other receivables included in line item “other assets”

Subsequent to initial recognition, the debt financial asset is measured at amortized cost using the effective interest rate (“EIR”) method for the allocation and recognition of interest revenue in line item “interest income” of the income statement over the relevant period. The amortized cost is the amount at which the financial asset is measured at initial recognition minus any principal repayments, plus or minus the cumulative amortization using the EIR method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount is the amortized cost of a financial asset before adjusting for any loss allowance.

- **Debt instruments measured at FVTOCI**

A debt financial asset is measured at FVTOCI if it is held in a business model that has an objective to hold financial assets to collect contractual cash flows and sell the assets and the contractual terms of the financial asset result in cash flows that pass the SPPI test.

After initial recognition, investments in debt financial assets are measured at fair value in the statement of financial position (with no deduction for sale or disposal costs) with unrealized gains and losses reported in OCI, net of applicable income taxes, until such investments are derecognized (i.e. when sold or collected). Upon derecognition, the cumulative gains or losses previously recognized in OCI are reclassified from OCI to income statement.

For debt financial assets measured at amortized cost or FVTOCI, the following items are recognized in the Income Statement:
• ECL allowance recognized in “Credit loss allowance and other impairment charges”.
• Foreign exchange gains and losses, calculated based on the amortized cost of the instrument, are recognized in “Foreign exchange translation gains less losses”.
• Interest income calculated with the EIR method is recognized in “Interest income calculated using the effective interest method”.

- **Equity instruments designated at FVTOCI**

After initial recognition, investments in equity instruments designated at FVTOCI are measured at fair value, with no deduction for sale or disposal costs. Except for dividends received, the associated gains and losses (including any related foreign exchange component) are recognized in OCI. Amounts presented in OCI are not subsequently recycled to the income statement, instead the cumulative gain or loss is transferred within equity from accumulated OCI to retained earnings.

- **Financial assets and financial liabilities measured at FVTPL**

After initial recognition, financial assets and financial liabilities that are classified as at FVTPL are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from fair value remeasurement are recognized in their entirety in “Trading income, net”.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

(a) Classification and Measurement of financial instruments (Continued)

Financial assets – modification

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assess whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets) and recognizes a modification gain or loss in the income statement, “Interest income” .

Payment holidays (moratoria) granted by the Group in response to COVID-19 pandemic are treated as contractual modifications of the respective loans and advances. The modification impact of the moratoria has been assessed by the Group and was not material for the year ended 31 December 2022 and 31 December 2021.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognizes the original financial asset and recognizes a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognized and fair value of the new substantially modified asset is recognized in the income statement, “Interest income”.

(b) Impairment - Expected Credit Losses

Expected Credit Loss (“ECL”) are recognized for all financial assets measured at amortized cost, debt financial assets measured at FVTOCI, financial guarantees and certain loan commitments. ECL represent the difference between contractual cash flows and those that the Group expects to receive, discounted at the EIR. For loan commitments and other credit facilities in scope of ECL, the expected cash shortfalls are determined by considering expected future draw downs.

Recognition of expected credit losses

At initial recognition, an impairment allowance is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL), weighted by the risk of a default occurring. Instruments in this category are referred to as instruments in Stage 1. For instruments with a remaining maturity of less than 12 months, ECL are determined for this shorter period.
In the event of a significant increase in credit risk (“SICR”), an ECL allowance is required, reflecting lifetime cash shortfalls that would result from all possible default events over the expected life of the financial instrument (“lifetime ECL”), weighted by the risk of a default occurring. Instruments in this category are referred to as instruments in Stage 2.

Lifetime ECL are always recognised on financial assets for which there is objective evidence of impairment, that is they are considered to be in default or otherwise credit-impaired. Such instruments are referred to as instruments in Stage 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

(b) Impairment - Expected Credit Losses (Continued)

Recognition of expected credit losses (Continued)

Purchased or originated financial assets that are credit Impaired (POCIs) are classified as credit impaired. An instrument is POCI if it has been purchased with a material discount to its par value that reflects the incurred credit losses or is originated with a defaulted counterparty.

For POCI financial assets, the Group recognises adverse changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in the income statement. POCI are initially recognised at fair value with interest income subsequently being recognised based on a credit-adjusted EIR. POCI may also include financial instruments that are newly recognised following a substantial modification and remain a separate category until maturity. Any favorable changes for POCI assets are impairment gain even if the resulting expected cash flows exceed the estimated cash flows on initial recognition.

ECL are recognised in the income statement with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the statement of financial position. For financial assets measured at FVTOCI, an impairment allowance estimated using the expected credit loss model is recognised in the income statement. The diference between amortised cost and fair value of FVTOCI financial assets is recognised in OCI. For off-balance sheet financial instruments, the ECL allowance is reported as a provision in “other liabilities”. ECL are recognised within the income statement in “Credit loss allowance and other impairment charges ”.

Write-off

A write-off is made when the Group does not have a reasonable expectation to recover all or part of a financial asset.

The Group has undertook all necessary, early, work out, and late / legal activities and measures for collection of the claims. The activities included contacts with debtors, exhausting of all possibilities for business solution, initiation of legal measures, blocking of gyro-account of debtors and guarantors, initiation of court cases for collection, initiation and running of enforcement proceedings for liquidation of collateral, bankruptcy proceedings, as well as legal activities against the guarantors and/or any persons involved. The claims are subject to write off when clients have stopped with any business activities, are deleted from the State Central Registry are under the bankruptcy proceedings or with blocked gyro accounts for a longer period.

Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses. Recoveries, in part or in full, of amounts previously written off are generally credited to “Impairment on financial assets”. Write-offs and partial write-offs represent derecognition or partial derecognition events.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities are classified as deposits from banks, financial institutions and customers, financial liabilities through profit and loss, loans payable and other payables.

Deposits from banks and other financial institutions and customers

These financial liabilities are initially recognized at fair value net of transaction costs incurred. Subsequently are measured at amortized cost.

Financial liabilities through profit and loss

These financial liabilities include derivative financial instruments of foreign exchange contracts and initially and subsequently are measured/re-measured at fair value. These contracts do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated in the same way as derivative instruments held-for-trading, i.e. fair value gains and losses are recognized in net-trading income.

Loans payable

Loans payable are initially recognized at fair value net of transaction costs incurred. Subsequent measurement is at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the loan using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Other payables

Other payables are stated at their nominal amounts. Preferred shares which carry a mandatory fixed dividend are classified as financial liabilities and are presented in other liabilities. The dividends from these preference shares are recognized in the income statement.

Derecognition of financial liabilities

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

IBOR Reform

The interest rate benchmark reform, initiated by the Financial Stability Board in 2014, aims at replacing these benchmark rates with alternative rates, in particular the Risk-Free Rates ("RFR"). This reform accelerated on 5 March 2021, when the Financial Conduct Authority, the supervisor of LIBOR, announced the official dates for the cessation and loss of representativeness:

- EUR and CHF LIBOR (all terms); GBP and JPY LIBOR (terms: overnight, 1 week, 2 months and 12 months); LIBOR USD (terms: 1 week and 2 months): the publication of these benchmark settings contributed by a panel of banks has permanently ceased as of 1 January 2022.

Besides, regarding the major euro area interest rate benchmark indexes:

- EURIBOR: European Money Markets Institute ("EMMI"), administrator of the index, does not plan to cease its publication. The EURIBOR will thus be maintained in the coming years.
- EONIA: its publication ceased definitively on 3 January 2022. The successor rate recommended by the ECB working group on the euro area is the €STR on which the EONIA was based since end 2019.

With the cessation deadlines announced for LIBOR and EONIA the Group decided to stop the production of new contracts referencing these indexes as well as at migrating the existing contracts referencing said indexes to alternative benchmark rates. The B Group is confident in its operational capacity to manage the transition to the new benchmark rate since the IBOR reform influence the non-material amount of retail deposits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities (Continued)

IBOR Reform (continued)

In thousands of Denars

Current benchmark interest rates	**New risk-free rates likely to/or has replaced current benchmark interest rates**	**Financial liabilities (Deposits from customers) impacted by the reform**
Index whose listing ends on 30.06.2023		
LIBOR - London Interbank Offered Rate - USD	Secured Overnight Financing Rate (SOFR)	503,827
Total		**503,827**

Beginning of 2022 the Group managed to replace the retail deposits with interest rate indexed to LIBOR GBP, LIBOR CHF and LIBOR JPY with new benchmark rates such as SONIA, SARON and TONA respectively.

Starting from 1 July 2023 the Group managed transition of the retail deposits with interest rate indexed USD LIBOR to new benchmark rates SOFR.

3.7 Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the statement of comprehensive income as an expense as incurred.

Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Land	without depreciation
Buildings	Up to 50 years
Investments in leased property	until the end of the lease contract, but not more than 12 years
Furniture and related equipment	Up to than 12 years
Motor vehicles	Up to 10 years
Hardware and other equipment	Up to 5 years
Right-of-use-assets	Straight-line basis over the lease term

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss. The Group annually reviewe s its property and equipment for impairment. Where the carrying amount on an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

Intangible assets are assets acquired separately and are reported at cost less accumulated amortization and accumulated impairment losses, Intangible assets include:

- Computer software and software that was acquired apart from hardware;
- Other intangibles.

Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is five years. The Group annually reviewes its intangible assets and assess whether there is any indication for impairment. If such indications exist, an estimate is performed to assess whether the carrying amount is recoverable. If the carrying amount exceeds the recoverable amount, a write down is made.

3.9 Impairment of tangible and intangible assets

The Group’s management reviews regularly the carrying amounts of the Group’s tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period. A reversal of an impairment loss is recognized as income immediately.

3.10 Investment property

Investment property includes buildings owned by the Group with the intention of earning rentals or for capital appreciation or both, and is initially recorded at cost, which includes transaction costs. The classification of the investment property is based on the criteria that the property is mostly held to earn rentals when compared to the property used by the Group for its own needs.

Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation of investment property is calculated on straight-line basis in a way to write off the cost value of assets over their estimated useful lives, which approximates the useful life of similar assets included in property and equipment.

Investment property is annually reviewed for impairment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period.

3.11 Assets acquired through foreclosure proceedings

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan and are reported in other assets as non-current assets held for sale. Initially, these assets are measured at the lower of the cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arises) and the fair value less estimated cost to sell, as determined by local certified appraisers on the date of asset foreclosure. After initial recognition, foreclosed assets are reviewed for impairment at least annually and are measured at the lower of their carrying amount less estimated costs to sell and accumulated impairments or their fair value.

3.12 Cash and balances with the central bank

Cash and balances with the central bank include cash on hand and nostro accounts, unrestricted demand deposits and placements with other banks and financial institutions, unrestricted account balances with the NBRNM and other financial assets such as treasury and other eligible bills, as highly liquid assets with maturity up to three months and insignificant changes to fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Managed funds

The Group provides fiduciary and trust services to legal entities and citizens, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Managed funds are not assets of the Group and are not recognized in the consolidated financial statements. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

3.14 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employment benefits

Health, pension and social insurance contributions from gross wages and salaries are being paid by the Group during the year to the national organizations at the statutory rates. Such contributions represent defined contribution benefit plans and are recognized as an expense when employees have rendered services entitling them to the contributions. There is no additional liability to these plans.

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulation, the Group is obliged to pay to its employees a termination lump sum upon retirement equal to two monthly average salaries. These benefits are considered defined pension benefit plans. The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets (there are currently no plan assets recognized), together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

3.15 Income tax

The current income tax payable is calculated based on the local tax regulation by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases

Group is the lessee
The Group applies a single recognition and measurement approach for all leases, except for short term leases and leases of low-value assets for which the payments are recognized as operating expense on straight line basis over the lease term. The Group recognizes liabilities representing the obligation to make lease payments and Right of Use (RoU) assets representing the right to use the underlying assets.

RoU assets The Group recognizes RoU assets at the commencement date of the lease (i.e. the date of the underlying assets is available for use). RoU assets are measure d at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of RoU assets includes the amount of lease liabilities recognized, initial directs costs incurred, restoration costs and lease payments made before the commencement date less any lease incentive received. RoU assets are depreciated on a straight-line basis over the lease term. The RoU assets are presented in the property and equipment.

Lease liabilities the Group recognizes liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Short term leases and leases of low-value assets The Group has elected not to recognize RoU assets and liabilities for short-term leases that have a lease term of 12 months of less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group is the lessor
Operating lease: Assets leased out under operating lease are included in the statement of financial position as investment property. Rental income from investment property is recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of the Group. The Group has determined the Board of Directors as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

Geographical areas include income from assets that are either located or are managed in the respective geographical area.

3.18 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when there is there is a legally enforceable right to offset the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously or on a net basis. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

3.19 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: a) the unamortized balance of the related fees received and deferred, and b) the amount of the loss allowance determined in accordance with IFRS 9. .

3.20 Related party transactions

Related parties are related to the Group if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group (this includes parent and fellow subsidiaries in the NBG Group) and has an interest in the Group that gives it significant influence over the Group, or the party is a member of the key management personnel of the Group or its parent or is a close member of the family of any individual which is described above. A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. All banking transactions entered into which related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

3.21 Earnings per share

Basic earnings per share (EPS) ratio is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share ration is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates

The most significant areas, for which judgments, estimates and assumptions are required, are:

Expected Credit Loss ("ECL")

The calculation of ECL requires management to apply significant judgment and make estimates and assumptions that involve significant uncertainty at the time they are determined. Changes to these estimates and assumptions can result in significant changes to the amount and timing of ECL to be recognized. The most significant sources of measurement uncertainty relate to the following ECL factors:

Determination of a significant increase of credit risk (SICR)

The Group assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative criteria. A non-credit impaired asset is classified in stage 2 if it has suffered a SICR, otherwise it is classified in stage 1. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.
The Group assesses SICR based on three main components:

- a quantitative element, i.e. reflecting a quantitative comparison of 12 M PD, LT PD or credit rating at the reporting date versus the respective metric at initial recognition. If a SICR since initial recognition is identified, the lending exposure is moved to Stage 2 but is not yet deemed to be credit-impaired. The SICR assessment is performed on a loan facility level.
- a qualitative element, that is all Forborne Performing Exposures (FPE) not classified as Stage 3 are considered as lending exposures with SICR and debtors in internal watch list for corporate obligors as an indication of SICR; and
- "Backstop" indicators. The Group applies on all lending exposures the IFRS 9 presumption that a SICR has occurred when the financial asset is more than 30 days past due.

Definition of default

The Group has aligned the definition of default, used for IFRS9 reporting purposes, as per EBA Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures, as adopted by the Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council ("EBA ITS"). Following the financial crisis, the EBA established tighter standards.

For IFRS9 Group reporting purposes, the Group has aligned the definition of default with the NPE definition as per the EBA ITS. A financial asset is considered as credit impaired, and is classified into Stage 3, when it is classified as NPE in accordance with the Groups's NPE and Forbearance Classification Policy. Furthermore, EBA published the Final Guidelines (EBA/GL/2016/07) on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013 and Regulation (EU) 2018/1845 of the European Central Bank (ECB), in relation to the threshold for assessing the materiality of credit obligations past due, with the intention of harmonizing its application among European Financial institutions and improving consistency in the way these institutions estimate regulatory requirements to their capital positions, being applied from 1 January 2021.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Critical accounting judgments and estimates (Continued)

The new definition of default results in classification of exposures (except for those held for trading or debt securities where the borrower has no other exposures with the Group) into Stage 3 according to the following main criteria:

(a) Unpaid payments of over €100 for Retail €500 for Non-retail for more than 90 consecutive days, representing at least 1% of the total exposure of the obligor. For the Corporate portfolio, the assessment takes place at obligor level, as opposed to a facility level assessment for Retail exposures.

(b) A 3-month probation period for non-forborne exposures, during which no default trigger applies.

(c) Identification of other criteria that evidence, even in the absence of missed payments, that it is unlikely that the counterparty could meet all its financial obligations (UTPs).

A commitment is regarded as NPE if, when withdrawn or otherwise used, it would lead to exposures that present a risk of not being paid back in full without realisation of collateral. Financial guarantees written by the Group are regarded as NPE for their nominal value when the financial guarantee is at risk of being called by the holder of the guarantee, including, in particular, when the underlying guaranteed exposure meets the criteria to be considered as NPE.

A debt security is considered as credit impaired under an objective approach, and classified into Stage 3, when at least one payment of capital or interest is overdue by the issuer, based on the contractual terms of the instrument, irrespective of the days past due. In addition, a debt security is assessed as credit impaired if there is at least one external credit rating on the security or the issuer (if no external rating on the security is available) corresponding to Default or Selective Default.

Model risk inherent in the IFRS 9 models

Compliance with the IFRS 9 impairment model requires the use of a variety of models. The complexity of the models as well as dependency to other model-based inputs is high therefore any changes in inputs and data, as well as new or revised models, may significantly affect ECL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

Forward looking information

FLI is incorporated in the ECL measurement of collectively assessed loans and debt securities through the PD and LGD models. The expected recoveries (cash flow recoveries or liquidation of collateral) used in the ECL calculation of corporate lending exposures individually assessed, takes into account FLI based on the Group's forecasts of the relevant macroeconomic factors. Each of the scenarios is based on Management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. Changes in the scenarios and weights, the relevant macroeconomic variables and the assumptions made under those variables for the forecast horizon would have a significant effect on the ECL.

The Group incorporates forward-looking information in the ECL measurement through the PD models. In order to capture the FLI in the credit risk parameters models, the Group initially selects potential drivers of each target risk metric that are likely to be the most important based on economic intuition, experience with similar models, and historical data analysis. A customized variable selection algorithm is then applied to choose the optimal combination of macroeconomic drivers. Through widely accepted econometric models, the Group develops FLI for credit risk parameters models in form of three macroeconomic scenarios using official sources for future macroeconomic projections (for three respective years). In March 2022, as part of the regular process of update, the Group incorporated a new FLI with the aim to reflect the macroeconomic developments.

Along with the ongoing geo-political tensions the initially expected recovery in the post-pandemic period was replaced with new expectations for slower growth and higher inflation rates. Therefore, a downward correction was made on the previous official projection of the GDP growth rates, while the inflation projections were corrected upwards. Following these macroeconomic developments, in December 2022 the Macroeconomic PD component was updated in both, corporate and retail PD models. Loss given default parameters were also updated to incorporate the forward looking information captured through the expected movement of the Gross Domestic Product.

The Group uses three macroeconomic scenarios (i.e. baseline, optimistic, pessimistic) applying weights of 40% for baseline and 30% for optimistic and pessimistic scenario respectively. The scenarios are developed using official projections from recognized international sources (such as the country's Central Bank, IMF, World Bank etc.). The main purpose is achieving the objective of measuring ECL in a way that reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes. The macroeconomic scenarios used for incorporating FLI into the ECL measurement, as well as the scenario weights, are approved by the Group's Risk Management Committee.

Further, the projections are assessed against the actual parameters on regular bases, and in case the actual values vary significantly from the incorporated projections, the projections are amended and incorporated in the PD curves. From the period of implementation of the IFRS 9 ECL PD models, the Group has been performing a regular validation of the models in order to ensure that their performance is kept at satisfactory levels. During 2022, an external vendor, in cooperation with SB Model Validation Unit, have performed validation of the 12-month, lifetime and macro-PD components. The validation reports recognize that the results are to a degree affected by the Covid-19 pandemic. For the retail and corporate portfolio, the results indicate that the PD models, in general, maintained an adequate to satisfactory performance.

Impact of geo-political crisis

The year 2022 was recognized as a year of low GDP growth and increased inflation as a result of the ongoing geo-political tensions. The inflationary pressures and the volatility in the energy prices have caused concerns and uncertainty regarding the outlook of the economic activity.

Within the established Macro Model for incorporating the Forward Looking Information (FLI) in the risk parameters used in the ECL calculation, the Group has incorporated the impact of the current geo-political crisis in the process of ECL calculation through the regular update of actual variables, but also through the expectations regarding the macroeconomic developments, derived from official sources. The update of PD and LGD models with macroeconomic data was performed in March 2022 and also in December 2022, as the previous macroeconomic projections were corrected by the official sources with the aim to more adequately capture the most recent movements caused by the geo-political crisis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

The following macro projections (forward-looking information) were applied in December 2022:

Impact of geo-political crisis (Continued)

Variable	Scenario	2022	2023	2024
GDP growth rate	Baseline	2.3%	2.6%	3.6%
	Optimistic	2.8%	3.0%	4.0%
	Adverse	2.0%	1.8%	3.2%
Personal consumption	Baseline	3.8%	2.1%	2.2%
	Optimistic	4.5%	2.8%	2.9%
	Adverse	3.1%	1.4%	1.5%
Employment rate	Baseline	47.9%	49.1%	50.5%
	Optimistic	48.6%	49.8%	51.2%
	Adverse	47.2%	48.4%	49.8%
Unemployment rate	Baseline	14.4%	13.7%	13.6%
	Optimistic	13.9%	13.2%	13.1%
	Adverse	14.9%	14.2%	14.1%
Inflation	Baseline	14.3%	9.0%	2.4%
	Optimistic	13.9%	8.6%	2.0%
	Adverse	14.7%	9.4%	2.8%
Key interest rate in economy – average in period	Baseline	4.75%	4.75%	2.5%
	Optimistic	4.75%	4.5%	2.0%
	Adverse	4.75%	5.0%	3.0%
Exchange rate (EUR/MKD)	Baseline	61.60	61.60	61.60
	Optimistic	61.60	61.60	61.60
	Adverse	61.60	61.60	61.60

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

The following macro projections (forward-looking information) were applied in December 2021:

Variable	Scenario		2021	2022	2023
GDP growth rate	Baseline	40%	3.9%	3.6%	4.0%
	Optimistic	30%	4.8%	4.5%	5.0%
	Adverse	30%	0.0%	2.0%	3.0%
	Baseline	40%	8.1%	9.1%	9.1%
Gross expenses on	Optimistic	30%	10.0%	11.4%	11.4%
fixed assets	Adverse	30%	0.0%	5.1%	5.1%
Personal consumption	Baseline	40%	3.4%	3.3%	3.6%
	Optimistic	30%	4.2%	4.1%	4.5%
	Adverse	30%	0.0%	1.8%	2.7%
Average gross real	Baseline				
salary		40%	4.0%	4.3%	4.6%
	Optimistic	30%	5.0%	5.3%	5.6%
	Adverse	30%	3.0%	3.3%	3.6%
Employment rate	Baseline	40%	48.2%	49.2%	50.1%
	Optimistic	30%	49.2%	50.2%	51.1%
	Adverse	30%	47.2%	48.2%	49.1%
Unemployment rate	Baseline	40%	16.4%	15.4%	14.5%
	Optimistic	30%	15.4%	14.4%	13.5%
	Adverse	30%	17.4%	16.4%	15.5%
Inflation	Baseline	40%	1.5%	2.0%	2.0%
	Optimistic	30%	1.7%	2.0%	2.0%
	Adverse	30%	0.5%	1.0%	1.0%
Main interest rate in	Baseline	40%	1.8%	2.0%	2.5%
economy – average in	Optimistic	30%	1.5%	1.5%	2.0%
period	Adverse	30%	3.0%	3.0%	2.5%
	Baseline	40%	1.4%	1.5%	1.5%
Interbank offered rate	Optimistic	30%	1.0%	1.0%	1.3%
3M – average in period	Adverse	30%	1.7%	1.6%	1.5%
	Baseline	40%	61.69	61.50	61.50
Exchange rate	Optimistic	30%	61.50	61.50	61.50
(EUR/MKD)	Adverse	30%	61.50	61.50	61.50
Industrial production	Baseline	40%	4.0%	3.7%	4.0%
	Optimistic	30%	7.8%	5.6%	5.9%
	Adverse	30%	0.2%	1.8%	2.1%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

In a surrounding of global uncertainty and signals by Central banks and authorities, the Group has considered the possibility to apply ECL overlays in the ECL calculation, which aim to adequately capture the future prospects of risks and uncertainties by using post-model adjustments or expert credit judgements. As PD models assume that the effects form certain factors materialize with a delay, an overlay approach was determined to timely estimate the ECL related to reduced repayment capacity of its loan portfolio. As of December 2022, in addition to standard SICR assessment, the Group applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by the war in Ukraine and the energy crisis. Based on an assessment made it was considered that the unsecured sub-portfolio might potentially create an increased exposure to credit risk, therefore the overlay approach has been considered only for these sub-portfolios. Overlays applied by the management resulted in increase of 15.54% of the ECL in Consumer Loans and 7.25% of the ECL in Credit Cards, which resulted in increase of total ECL of the Group by 6.63%.

Fair value of financial instruments

The fair value of the financial instruments that are not quoted in active markets are determined using internal valuation techniques. These include present value methods, models based on observable input parameters. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed by qualified personnel independent of the area that created the model. Wherever possible, the Group compares valuations derived from models with quoted prices of similar instruments, and with actual values when realized, in order to further validate and standardized models. A variety of factors are incorporated into the models, including actual or estimated market prices and rates, such as time value and volatility, market conditions and liquidity.

The Group applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. In the RNM sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available.

In the opinion of management, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Operating environment of the Bank and the Group

In 2022, the banking system was operating under increased risks due to Russia – Ukraine crisis and inflationary pressures related to the energy crisis. Uncertainty from the prolonged geopolitical crisis and the growth of inflation, especially in food and energy prices, are causing a slowdown in global economic activity with potential negative economic spill overs. All this, has contributed to an increase of interest rates by the banks all over the world. It is expected that all these issues will remain relevant in 2023.

On average, the domestic economy achieved a real growth of 2.1% on an annual basis, for the entire year 2022, which represents a slowdown compared to the growth of 3.9% in the previous year, mainly due to the unfavorable effects of the energy crisis and the growth of costs on certain sectors of the economy. The biggest positive contribution to growth had trade activities, while a negative effect was recorded by industry and construction. Despite the decrease in real wages and personal consumption, at the end of the year the economy recorded growth, mainly supported by the increase in private transfers. However, the current global political instability will continue to impose challenges in 2023.

The disrupted global supply chains and the mismatch of supply and demand caused by Russia – Ukraine crisis, resulted in high inflation worldwide that hasn't been evidenced in the last two decades, especially in food and energy. The average CPI in the domestic economy for 2022 was 14.2%, having in mind that the annual rate was 18.7%. There is still high uncertainty of the movement of prices of primary products in the next period. In the Budget of RNM, for the entire year 2022, a deficit in the amount of MKD 35,482 million was realized. Driven by a stronger revenue performance (11.5% increase) compared to expenses (8.4% increase), budget deficit in 2022 has narrowed to 4.5% of GDP. Budget deficit is fully financed through borrowings by the state on foreign and domestic markets, as well as by the state's deposits with the National Bank. Realized budget deficit for 2022 represents 83% of the planned budget deficit for 2022. As of the end of 2022 the public debt amounted to MKD 473,676 million or 59.7% of GDP. In line with the Public Debt Management Strategy, it remains the endeavor to reduce the public debt well below the Maastricht criterion of 60% until 2026. External position in 2022 increased, resulting with current account deficit of MKD 47,497 million or 6.0% of GDP. Private transfers rebounded, reaching MKD 150,320 million, which is 29.3% higher than the previous year, covering 90.1% of the trade deficit. With regards to the financial account, foreign direct investment also expanded by 60% compared to 2021, reaching MKD 46,366 million. The adequate level of gross foreign reserves (MKD 237,542 million or 3.7-months import coverage) enabled sufficient buffers against potential unforeseen shocks.

During 2022, the NBRNM continued with tightening of the monetary policy, which began at the end of 2021, including active liquidity management through interventions on FX market, as well as through increase of the interest rates. Foreign reserves are at a comfortable level and foreign currency liquidity in the banking system remains suitable. After multiple increase, at the end of 2022, the key interest rate of CB bills reached the level of 4.75%. However, given the uncertainty regarding the future path of inflation and the tensions in Ukraine, NBRNM states that it will continue to closely monitor the developments and potential risks, emphasizing its readiness to act as needed to support the currency peg.

During the Russian-Ukrainian crisis the banking system managed to remain well capitalized, liquid and profitable. It showed an ability to support the economy in complex conditions and further meet the requirements of its clients. At the end of 2022, total deposit growth reached 4.9% on annual level. Herein, corporate deposits recorded growth of 3.7%, while retail deposits increased by 5.8%. The credit growth at the end of the year reached 9.4%. The retail loans grew by 7.3%, while corporate loans were higher by 11.5%. NPE level continued its downward trend reaching the level of -2.9% as of 31.12.2022. The loans to deposits ratio at the end of the year was 86.1%. The capital adequacy ratio of the banking sector as of 31.12.2022 was 17.7%. The profitability ratios ROA and ROE were at the level of 1.5% and 12.2% respectively. Despite the strong shocks that the local economy faced, stability was preserved, but the risks require further vigilant monitoring and caution.

Stopanska Banka AD Skopje participates with 18% of the total banking sector assets and almost 1/5 of both deposits and loans. In 2022, the realized growth rate of gross loans was 10.7% and 5.5 % of deposits. During 2022, the performance of the Bank was in many aspects higher compared to the total banking sector as shown above. Namely, ROA 2.0% vs. 1.5%, NIM 4.1% vs. 2.7% and the cost-to income ratio well below the banking sector with 33.8% vs. 47.8%. The capital adequacy ratio as of 31 December 2022 was 16.6%.

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Group's risk management organization structure ensures existence of clear lines of responsibility, efficient segregation of duties and prevention of conflicts of interest at all levels, including the Supervisory Board, Board of Directors, Senior Management, as well as between the Group and the NBG Group, its customers and any other stakeholders. Within the Group, risk management activities broadly take place at the following levels:

- Strategic level encompasses risk management functions performed by the Supervisory Board. These include the approval of risk and capital strategy, ascertaining the Group's risk definitions, profile and appetite, as well as, the risk reward profile and other high-level risk related policies and internal guidelines.
- Tactical level encompasses risk management functions performed by the Board of Directors and the Senior Management. These include the establishment of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management Division of the Group, as well as, other critical support functions fall into this category
- Operational (business line) level – It involves management of risks at the point where they are actually created. The relevant activities are performed by individuals who undertake risk on the organization's behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant operational procedures and guidelines set by management.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk.

Credit risk is the most important risk for the Group s business defined as current or future risk on the financial result and capital arising from a counter party's failure to meet the terms of any contract with the Group or otherwise fail to perform as agreed. The exposure to this risk arises principally from retail and corporate lending activities, as well as activities related to off-balance sheet financial instruments (loan commitments, L/G and L/C).

4.2 Credit risk

4.2.1 Credit risk measurement, limits and mitigation policies

Initially, when approving loans and loan commitments, the authorized Credit Approval Committees assess creditworthiness of the clients depending on the type and size of the exposure and based on defined criteria. The Group credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee and Committee for classification of assets and provisioning for potential losses, commitments and contingencies and it is mainly based on reports and analyses prepared by relevant organization units of the Group. The Risk Management Committee, Board of Directors and Supervisory Board are regularly informed of the credit risk that the Group is exposed to.

The Group has an internal system of classification of customers whose main aim is determining their creditworthiness and evaluation of the acceptable level of credit risk in starting lending. Classification of customers to which the Group is exposed is reviewed at least annually. The Group has implemented a system of early warning signals in order to timely identify any deterioration in the creditworthiness of the client and take appropriate action to mitigate credit risk.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.1 Credit risk measurement, limits and mitigation policies (Continued)

The Group employs a range of practices to mitigate credit risk. Common practice is accepting suitable collateral for approved loans. The main collateral types for loans and other credit exposures are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities;
- Pledges over movables, such as cars, equipment and other,

The Group monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits towards different types of borrowers, industry sectors, geographic location and type of collateral, also limit of the exposure to Group internal persons, and large exposures, exposure by sector of activity are set in the Risk Strategy and the Risk Appetite Framework of the Group and further detailed in the Group's credit risk management policies and procedures. The Group structures the levels of credit risk that undertakes towards domestic and foreign banks by placing limits on the amount of risk accepted subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

The loan portfolio of the Group remains widely dispersed across different types of borrowers, asset categories and number of industries, thus preventing excessive concentration risks.

For that purpose, on a regular basis, the Group monitors a set of limits that control the exposure of the Group towards different types of borrowers, industry sectors, and type of collateral.

In 2022, the Group navigated the persistent effects of the pandemic on global economies as well as inflation and the energy crisis stemming mainly from the Russia-Ukraine conflict. The Group worked diligently and in close collaboration with its clients and relevant stakeholders to effectively overcome these unprecedented challenges, keeping the quality of the portfolio. The Group continued with the intensive monitoring of the portfolio using monitoring tools and processes for early identification and appropriate mitigation of any impact on the credit portfolio, supported by relevant internal acts.

4.2.2 Impairment and provisioning policies – IFRS 9

The impairment requirements of IFRS 9 are based on an ECL model. The impairment model of IFRS 9 recognizes impairment losses before they are realized. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

IFRS 9 requires the classification of all financial assets into three stages. The amount of ECL recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. Under the general approach, there are two measurement bases:

- 12-month ECL (stage 1), which apply to all items as long as there is no significant deterioration in credit risk; and
- Lifetime ECL ("LT ECL") for stages 2 and 3, which apply when a significant increase in credit risk, compared to the credit risk at initial recognition, has occurred on an individual or collective basis.

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month ECL	LT ECL	LT ECL

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.2 Impairment and provisioning policies – IFRS 9 (Continued)

In order to assess SICR and calculate ECL on a collective basis, the Group allocates financial assets into groups on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous. The frequency of ECL measurement on a collective basis is monthly. The Group groups exposures if there is sufficient information for the group to be statistically credible. The characteristics used to determine groupings are outlined below:

Retail loans:

- Product type (e.g. mortgages, credit cards, overdraft, term loans, retail SME)
- Origination vintage (Months on Book at time of assessment)
- Delinquency Bucket at time of assessment (current, 1-30 DPD, 31-60 DPD, 61 to 90 DPD, default)

Retail Portfolio is grouped on the basis of shared credit risk characteristics, taking into consideration Product type, Months on Book and Delinquency Bucket. The portfolio with the best performance is allocated in Stage 1 with average 12 month Probability of Default of 0.14% for Mortgage Portfolio, 0.62% for Credit Cards and 1.38% for Consumer Loans. The portfolio that meets the SICR criteria is allocated in Stage 2, with average Life Time Probability of Default of 4.84% for Mortgage Portfolio, 2.27% for Credit Cards and 8.63% for Consumer Loans. Retail portfolio that meets default criteria is allocated in Stage 3 with a Probability of Default of 100%.

Wholesale corporate loans: Industry

- Business segment (large corporates, SME, small banking business)
- Internal credit rating band

The Bank is using Risk Measure 3 application, in order internal rating of the company to be acquired by using qualitative and quantitative data of the company. Using quantitative data (financial statements of the company) and various quantitative data (such as, but not limited to: market conditions, credit history, management stability, years of operations, market conditions) the application produces Internal Credit Rating for the companies (A1, A2, B1, B2, C1, C2, D1, D2, E1 and E2, whereas A1 is the best rating, while E2 is the worst)

- Internal Credit Rating A includes clients with strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. The clients in Group A are the best clients with a low degree of default probability (form 0.2% to 0.4% in Corporate and from 0.1% to 0.2% in SBB portfolio)

- Internal Credit Rating B includes clients which are less vulnerable in the near-term, but they are more sensitive to adverse changes in business, financial and economic conditions. The clients in Group B includes clients with a low credit risk, with a probability of default from 0.7% to 1.4% in Corporate and from 0.3%% to 0.6% in SBB portfolio.

- Internal Credit Rating C includes the clients which currently has the capacity to meet financial commitments, but are more vulnerable to adverse business, financial and economic conditions. The clients in Group C includes clients with a probability of default from 5.5% to 4.4% in Corporate and from 1.0%% to 1.6% in SBB portfolio.

- Internal Credit Rating D includes the clients which are vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments. Probability of default in Group D clients vary from 7.9% to 14% in Corporate and 2.7% to 4.5% in SBB portfolio.

- Internal Credit Rating E includes the clients which are highly vulnerable, and are likely in, or very near default, with some prospects of recovery in principal and interest. These clients are highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations. The group E clients are clients with high Probability of default, vary from 25.4% to 45.4% in Corporate and 7.6% to 12.6% in SBB portfolio.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.2 Impairment and provisioning policies – IFRS 9 (Continued)

The ECL calculations are based on the following factors (“the ECL Factors”):

- **Exposure at Default (“EAD”):** This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.
- **Credit Conversion Factor (“CCF”):** The *CCF* converts the amount of a credit line and other off-balance sheet amounts to an EAD amount.
- **Probability of Default (“PD”):** Represents the likelihood of a borrower/issuer defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), assessed on the prevailing economic conditions at the reporting date (PiT), adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default either over the next 12 months (12M PD) for Stage 1 financial assets, or over the remaining lifetime (lifetime PD) of the obligation, for Stage 2 and 3 financial assets.
- **Loss given default (“LGD”):** Represents the Bank’s expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of EAD.
- **Discount Rate**: The implied discount factor based on the original EIR of the financial asset or an approximation thereof.
- **Survival rate**: Is the cumulative probability of non-default at time t-1, further adjusted by the annual prepayment rate, PRt.

The use of the parameters in the ECL calculation depends on the Stage the credit exposure is in.

The scope of the exposures subject to individual assessment, is the following:

- Exposures classified into Stage 1 or Stage 2 & 3, irrespective of their balance, for which an individual assessment is deemed necessary by the relevant Units, based on current facts and circumstances at the reporting date,
- Exposures in Stage 3 for which the enforcement procedure has been initiated and collection is expected based on collateral liquidation, can be optionally subject to individual assessment.

The Divisions/Units responsible for conducting the individual assessment take into consideration both qualitative and quantitative factors in order to calculate the ECL allowance.

Apart from the thresholds set for determining the Individually Significant Loans, additional exposures may be individually assessed, irrespectively of their total exposure, based on the knowledge of the Relationship Managers and Business Units.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	In thousands of Denars	
	31 December 2022	31 December 2021
Credit risk exposure relating to on balance sheet assets		
Cash and balances with the central bank at amortized cost	22,469,444	20,867,795
Financial assets through profit and loss	2,021	1,999
Investment securities at fair value through other comprehensive income	690,361	2,146,529
Investment securities at amortized cost	9,677,727	10,131,180
Placement with, and loans to banks at amortized cost	297,437	278,118
Loans to customers at amortized cost	86,707,636	79,096,640
Other financial receivables (less foreclosure assets)	1,545,813	1,531,040
	121,390,439	114,053,301
Credit risk relating to off-balance sheet liabilities		
Financial guarantees	4,480,363	3,380,330
Standby letters of credits	221,630	820,176
Commitments to extend credits	16,379,071	13,367,429
Other off-balance sheet commitments	13,347	21,654
Gross exposure	21,094,411	17,589,589
Less: ECL allowance	(24,421)	(28,318)
	21,069,990	17,561,271
Total credit risk exposure	142,460,429	131,614,572

Deposits, property, cars, government bonds, pledges over machines and other movables are accepted as collateral in order to secure the credit exposures.

Mortgages are secured by property (residential and business premises) or deposits with a loan to value ratio up to 85%. Consumer loans in the amounts over EUR 25,000 are secured by property (only residential premises) or deposits with a loan to value ratio up to 70%.

Auto loans (included in category-consumer loans) are secured by vehicles.

The corporate loans and small business lines are secured with different types of collaterals: residential mortgage, commercial premises, cars, pledge over machines and other movables, L/Gs from first-class banks, corporate L/Gs and personal bills of exchange taking into consideration the quality of the collateral and the loan to value ratio.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers

a) Loans to customers are summarized below:

	Stage 1	Stage 2	Stage 3	Total gross	ECL allowance for Stage 1	ECL allowance for Stage 2	ECL allowance for Stage 3	Total ECL allowance	Total net
December 31,2022									
Credit Cards	2,559,601	422,992	155,803	3,138,396	(7,830)	(9,688)	(81,987)	(99,505)	3,038,891
Consumer	26,452,391	8,553,365	2,246,334	37,252,090	(180,927)	(439,784)	(1,157,573)	(1,778,284)	35,473,806
Mortgage	9,056,279	7,011,610	192,647	16,260,536	(2,625)	(37,585)	(70,684)	(110,894)	16,149,642
Small business loans	4,355,505	1,391,301	154,988	5,901,794	(17,360)	(26,155)	(45,713)	(89,228)	5,812,566
Corporate loans	17,440,961	8,146,495	2,552,128	28,139,584	(258,099)	(469,200)	(1,179,554)	(1,906,853)	26,232,731
Total	59,864,737	25,525,763	5,301,900	90,692,400	(466,841)	(982,412)	(2,535,511)	(3,984,764)	86,707,636

	Stage 1	Stage 2	Stage 3	Total gross	ECL allowance for Stage 1	ECL allowance for Stage 2	ECL allowance for Stage 3	Total ECL allowance	Total net
December 31,2021									
Cards	2,204,186	820,742	180,988	3,205,916	(11,064)	(9,624)	(90,062)	(110,750)	3,095,166
Consumer	31,616,804	2,730,041	2,181,158	36,528,003	(271,015)	(147,537)	(1,166,758)	(1,585,310)	34,942,693
Mortgage	8,434,092	5,027,504	220,604	13,682,200	(7,094)	(41,055)	(56,991)	(105,140)	13,577,060
Small business loans	3,053,814	1,645,430	148,701	4,847,945	(14,719)	(41,337)	(50,052)	(106,108)	4,741,837
Corporate loans	16,225,983	5,663,912	2,972,098	24,861,993	(221,694)	(372,613)	(1,527,802)	(2,122,109)	22,739,884
Total	61,534,879	15,887,629	5,703,549	83,126,057	(525,586)	(612,166)	(2,891,665)	(4,029,417)	79,096,640

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) **Credit quality of loans and advances to customers at amortised cost by range of probability of default**
A breakdown by range of probability of default summarized below:

	31.12.2022				31.12.2021			
Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
12 month PD								
0,01% - 0,6%	15,456,431	764,977	-	16,221,408	14,274,423	58,812	-	14,333,235
0,6% - 2%	31,338,057	2,003,423	-	33,341,480	31,501,082	1,038,801	-	32,539,883
2,01% - 5%	8,958,704	7,287,085	-	16,245,789	10,554,250	3,855,366	-	14,409,616
5,01% - 10%	2,427,829	8,140,816	-	10,568,645	3,519,011	4,137,228	-	7,656,239
10,01% - 20%	1,648,360	2,003,045	-	3,651,405	1,667,376	2,058,755	-	3,726,131
20,01% - 36 %	35,356	1,952,584	-	1,987,940	214	1,686,792	-	1,687,006
36,01% and above	-	3,373,833	5,301,900	8,675,733	18,523	3,051,875	5,703,549	8,773,947
Total	59,864,737	25,525,763	5,301,900	90,692,400	61,534,879	15,887,629	5,703,549	83,126,057

	Mortgage				Consumer			
December 31,2022	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
12 month PD								
0,01% - 0,6%	8,950,236	21,352	-	8,971,588	5,126,581	729,014	-	5,855,595
0,6% - 2%	65,862	135,339	-	201,201	20,265,713	922,931	-	21,188,644
2,01% - 5%	40,181	3,379,158	-	3,419,339	225,234	1,779,813	-	2,005,047
5,01% - 10%	-	3,449,880	-	3,449,880	381,266	3,731,638	-	4,112,904
10,01% - 20%	-	-	-	-	453,533	942,412	-	1,395,945
20,01% - 36 %	-	8,608	-	8,608	64	215,745	-	215,809
36,01% and above	-	17,273	192,647	209,920	-	231,812	2,246,334	2,478,146
Total	9,056,279	7,011,610	192,647	16,260,536	26,452,391	8,553,365	2,246,334	37,252,090

	Mortgage				Consumer			
December 31,2021	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
12 month PD								
0,01% - 0,6%	7,937,656	9,581	-	7,947,237	4,929,634	10,914	-	4,940,548
0,6% - 2%	916	142,200	-	143,116	24,304,953	73,426	-	24,378,379
2,01% - 5%	495,520	2,136,621	-	2,632,141	600,882	531,802	-	1,132,684
5,01% - 10%	-	2,611,085	-	2,611,085	1,781,121	875,709	-	2,656,830
10,01% - 20%	-	-	-	-	-	776,786	-	776,786
20,01% - 36 %	-	4,789	-	4,789	214	91,742	-	91,956
36,01% and above	-	123,228	220,604	343,832	-	369,662	2,181,158	2,550,820
Total	8,434,092	5,027,504	220,604	13,682,200	31,616,804	2,730,041	2,181,158	36,528,003

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) A breakdown by range of probability of default summarized below: (Continued)

	Credit Cards				Small Business			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
December 31,2022	**12 month ECL**	**Lifetime ECL**	**Credit Impaired**	**Total**	**12 month ECL**	**Lifetime ECL**	**Credit Impaired**	**Total**
12 month PD								
0,01% - 0,6%	85,224	1,772	-	86,996	626,718	12,839	-	639,557
0,6% - 2%	2,474,377	222,693	-	2,697,070	1,899,580	155,296	-	2,054,876
2,01% - 5%	-	173,395	-	173,395	1,778,122	176,526	-	1,954,648
5,01% - 10%	-	17,200	-	17,200	45,093	69,334	-	114,427
10,01% - 20%	-	1,364	-	1,364	5,992	260,637	-	266,629
20,01% - 36 %	-	5,349	-	5,349	-	636,892	-	636,892
36,01% and above	-	1,219	155,803	157,022	-	79,777	154,988	234,765
Total	2,559,601	422,992	155,803	3,138,396	4,355,505	1,391,301	154,988	5,901,794

	Credit Cards				Small Business			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
December 31,2021	**12 month ECL**	**Lifetime ECL**	**Credit Impaired**	**Total**	**12 month ECL**	**Lifetime ECL**	**Credit Impaire d**	**Total**
12 month PD								
0,01% - 0,6%	501	-	-	501	375,134	28,300	-	403,434
0,6% - 2%	2,172,003	626,285	-	2,798,288	1,177,196	149,304	-	1,326,500
2,01% - 5%	31,682	104,398	-	136,080	1,439,870	171,487	-	1,611,357
5,01% - 10%	-	68,419	-	68,419	59,779	45,742	-	105,521
10,01% - 20%	-	528	-	528	1,835	242,542	-	244,377
20,01% - 36 %	-	15,578	-	15,578	-	496,351	-	496,351
36,01% and above	-	5,534	180,988	186,522	-	511,704	148,701	660,405
Total	2,204,186	820,742	180,988	3,205,916	3,053,814	1,645,430	148,701	4,847,945

	Large				SME			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
December 31,2022	**12 month ECL**	**Lifetime ECL**	**Credit Impaired**	**Total**	**12 month ECL**	**Lifetime ECL**	**Credit Impaired**	**Total**
12 month PD								
0,01% - 0,6%	269,294	-	-	269,294	398,378	-	-	398,378
0,6% - 2%	5,475,735	331,808	-	5,807,543	1,156,790	235,356	-	1,392,146
2,01% - 5%	3,540,714	1,030,670	-	4,571,384	3,374,453	747,523	-	4,121,976
5,01% - 10%	80,022	213,476	-	293,498	1,921,448	659,288	-	2,580,736
10,01% - 20%	64,567	260,313	-	324,880	1,124,268	538,319	-	1,662,587
20,01% - 36 %	-	303,772	-	303,772	35,292	782,218	-	817,510
36,01% and above	-	126,081	214,362	340,443	-	2,917,671	2,337,766	5,255,437
Total	9,430,332	2,266,120	214,362	11,910,814	8,010,629	5,880,375	2,337,766	16,228,770

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) A breakdown by range of probability of default summarized below: (Continued)

	Large				SME			
December 31,2021	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**
12 month PD								
0,01% - 0,6%	595,780	-	-	595,780	435,718	10,017	-	445,735
0,6% - 2%	2,548,005	28,774	-	2,576,779	1,298,009	18,812	-	1,316,821
2,01% - 5%	4,620,663	477,120	-	5,097,783	3,365,633	433,938	-	3,799,571
5,01% - 10%	350,686	347,663	-	698,349	1,327,425	188,610	-	1,516,035
10,01% - 20%	211,674	161,585	-	373,259	1,453,867	877,314	-	2,331,181
20,01% - 36 %	-	138,852	-	138,852	-	939,480	-	939,480
36,01% and above	-	117,683	478,781	596,464	18,523	1,924,064	2,493,317	4,435,904
Total	8,326,808	1,271,677	478,781	10,077,266	7,899,175	4,392,235	2,493,317	14,784,727

c) Ageing analysis of loans and advances to customers net of allowance for impairment

	Not past due	**Past due up to 30 days**	**Past due 31-60 days**	**Past due 61-90 days**	**Past due 91-180 days**	**Past due 181-365 days**	**Past due 1-2 years**	**Past due over 2 years**	**Total**
December 31,2022									
Cards	2,823,180	134,400	9,534	2,386	6,299	12,865	25,371	24,856	3,038,891
Consumer	32,566,370	1,700,868	148,426	64,670	137,607	228,766	320,411	306,688	35,473,806
Mortgage	15,877,767	159,132	14,069	13,029	9,401	20,881	5,572	49,791	16,149,642
Small-business loans	5,082,936	558,444	65,473	41,410	11,285	34,390	6,998	11,630	5,812,566
Corporate loans	20,109,332	4,706,243	189,230	138,965	95,417	553,423	62,460	377,661	26,232,731
Total	76,459,585	7,259,087	426,732	260,460	260,009	850,325	420,812	770,626	86,707,636

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

c) Ageing analysis of loans and advances to customers net of allowance for impairment (continued)

	Not past due	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31,2021									
Cards	2,760,912	226,269	14,702	3,198	7,616	20,311	25,970	36,188	3,095,166
Consumer	30,387,693	3,250,959	315,786	116,039	126,845	194,038	243,649	307,684	34,942,693
Mortgage	12,374,420	931,175	97,606	41,495	11,416	20,902	12,801	87,245	13,577,060
Small-business loans	4,085,421	538,742	46,711	16,802	7,397	15,610	6,988	24,166	4,741,837
Corporate loans	19,494,702	2,366,115	98,967	548	5,434	183,053	67,459	523,606	22,739,884
Total	69,103,148	7,313,260	573,772	178,082	158,708	433,914	356,867	978,889	79,096,640

d) Movement in Gross carrying amount of loans and advances to customers at amortized cost

	31.12.2022				31.12.2021			
Total Loans	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
Balance at beginning of period	61,534,879	15,887,629	5,703,549	83,126,057	55,755,763	15,336,341	5,868,828	76,960,932
Transfer from Stage 1 to Stage 2	(13,892,637)	13,892,637	-	-	(7,132,313)	7,132,313	-	-
Transfer from Stage 1 to Stage 3	(813,939)	-	813,939	-	(729,044)	-	729,044	-
Transfer from Stage 2 to Stage 1	2,404,887	(2,404,887)	-	-	3,317,516	(3,317,516)	-	-
Transfer from Stage 2 to Stage 3	-	(1,127,510)	1,127,510	-	-	(1,395,571)	1,395,571	-
Transfer from Stage 3 to Stage 2	-	149,805	(149,805)	-	-	62,963	(62,963)	-
New financial assets originated or purchased	26,832,547	3,246,067	24,625	30,103,239	27,514,674	1,789,551	50,395	29,354,620
Write-offs	-	-	(1,260,288)	(1,260,288)	-	-	(1,377,192)	(1,377,192)
Other movements including repayments	(16,201,000)	(4,117,978)	(957,630)	(21,276,608)	(17,191,717)	(3,720,452)	(900,134)	(21,812,303)
Ending balance	59,864,737	25,525,763	5,301,900	90,692,400	61,534,879	15,887,629	5,703,549	83,126,057

For the written-off loans the Group's policy is to complete legal enforcement steps that were initiated even though the loans were written off as there is no reasonable expectation of recovery.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

d) Movement in Gross carrying amount of loans and advances to customers at amortized cost (Continued)

	Mortgage				Consumer			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2022								
Balance at beginning of period	8,434,092	5,027,504	220,604	13,682,200	31,616,804	2,730,041	2,181,158	36,528,003
Transfer from Stage 1 to Stage 2	(2,968,212)	2,968,212	-	-	(6,249,957)	6,249,957	-	-
Transfer from Stage 1 to Stage 3	(31,308)	-	31,308	-	(608,327)	-	608,327	-
Transfer from Stage 2 to Stage 1	80,079	(80,079)	-	-	492,769	(492,769)	-	-
Transfer from Stage 2 to Stage 3	-	(30,797)	30,797	-	-	(310,893)	310,893	-
Transfer from Stage 3 to Stage 2	-	44,880	(44,880)	-	-	100,468	(100,468)	-
New financial assets originated or purchased	4,699,489	12,736	-	4,712,225	12,858,127	1,926,059	23,188	14,807,374
Write-offs	-	-	(6,785)	(6,785)	-	-	(588,303)	(588,303)
Other movements including repayments	(1,157,861)	(930,846)	(38,397)	(2,127,104)	(11,657,025)	(1,649,498)	(188,461)	(13,494,984)
Ending balance	9,056,279	7,011,610	192,647	16,260,536	26,452,391	8,553,365	2,246,334	37,252,090

	Mortgage				Consumer			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2021								
Balance at beginning of period	7,213,711	4,590,936	232,792	12,037,439	29,407,862	3,641,846	2,292,334	35,342,042
Transfer from Stage 1 to Stage 2	(1,166,652)	1,166,652	-	-	(1,408,245)	1,408,245	-	-
Transfer from Stage 1 to Stage 3	(24,557)	-	24,557	-	(517,938)	-	517,938	-
Transfer from Stage 2 to Stage 1	153,189	(153,189)	-	-	1,565,475	(1,565,475)	-	-
Transfer from Stage 2 to Stage 3	-	(20,156)	20,156	-	-	(688,224)	688,224	-
Transfer from Stage 3 to Stage 2	-	24,541	(24,541)	-	-	37,588	(37,588)	-
New financial assets originated or purchased	3,540,977	164,475	-	3,705,452	14,894,079	766,838	28,843	15,689,760
Write-offs	-	-	(2,413)	(2,413)	-	-	(1,090,003)	(1,090,003)
Other movements including repayments	(1,282,576)	(745,755)	(29,947)	(2,058,278)	(12,324,428)	(870,777)	(218,590)	(13,413,795)
Ending balance	8,434,092	5,027,504	220,604	13,682,200	31,616,805	2,730,041	2,181,158	36,528,004

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

d) Movement in Gross carrying amount of loans and advances to customers at amortized cost (Continued)

	Credit Cards				Small Business			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**
December 31,2022								
Balance at beginning of period	2,204,186	820,742	180,988	3,205,916	3,053,814	1,645,430	148,701	4,847,945
Transfer from Stage 1 to Stage 2	(289,421)	289,421	-	-	(490,471)	490,471	-	-
Transfer from Stage 1 to Stage 3	(22,588)	-	22,588	-	(36,110)	-	36,110	-
Transfer from Stage 2 to Stage 1	623,416	(623,416)	-	-	438,836	(438,836)	-	-
Transfer from Stage 2 to Stage 3	-	(24,334)	24,334	-	-	(50,147)	50,147	-
Transfer from Stage 3 to Stage 2	-	1,141	(1,141)	-	-	3,314	(3,314)	-
New financial assets originated or purchased	216,477	15,553	1,437	233,467	2,287,481	231,153	-	2,518,634
Write-offs	-	-	(50,570)	(50,570)	-	-	(15,601)	(15,601)
Other movements including repayments	(172,469)	(56,115)	(21,833)	(250,417)	(898,045)	(490,084)	(61,055)	(1,449,184)
Ending balance	2,559,601	422,992	155,803	3,138,396	4,355,505	1,391,301	154,988	5,901,794

	Credit Cards				Small Business			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**
December 31,2021								
Balance at beginning of period	1,542,667	2,032,065	224,885	3,799,617	3,018,349	1,044,063	119,104	4,181,516
Transfer from Stage 1 to Stage 2	(81,596)	81,596	-	-	(730,834)	730,834	-	-
Transfer from Stage 1 to Stage 3	(27,642)	-	27,642	-	(37,759)	-	37,759	-
Transfer from Stage 2 to Stage 1	957,024	(957,024)	-	-	199,418	(199,418)	-	-
Transfer from Stage 2 to Stage 3	-	(73,185)	73,185	-	-	(26,975)	26,975	-
Transfer from Stage 3 to Stage 2	-	184	(184)	-	-	650	(650)	-
New financial assets originated or purchased	147,756	10,380	1,679	159,815	1,491,243	476,295	2,680	1,970,218
Write-offs	-	-	(128,526)	(128,526)	-	-	-	-
Other movements including repayments	(334,024)	(273,274)	(17,693)	(624,991)	(886,603)	(380,019)	(37,167)	(1,303,789)
Ending balance	2,204,185	820,742	180,988	3,205,915	3,053,814	1,645,430	148,701	4,847,945

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

d) Movement in Gross carrying amount of loans and advances to customers at amortized cost (Continued)

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2022								
Balance at beginning of period	8,326,808	1,271,677	478,781	10,077,266	7,899,175	4,392,235	2,493,317	14,784,727
Transfer from Stage 1 to Stage 2	(1,180,360)	1,180,360	-	-	(2,714,216)	2,714,216	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	(115,607)	-	115,607	-
Transfer from Stage 2 to Stage 1	174,458	(174,458)	-	-	595,329	(595,329)	-	-
Transfer from Stage 2 to Stage 3	-	(123,737)	123,737	-	-	(587,602)	587,602	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	2	(2)	-
New financial assets originated or purchased	3,519,465	356,551	-	3,876,016	3,251,508	704,015	-	3,955,523
Write(offs	-	-	(205,589)	(205,589)	-	-	(393,440)	(393,440)
Other movements including repayments	(1,410,039)	(244,273)	(182,567)	(1,836,879)	(905,560)	(747,162)	(465,318)	(2,118,040)
Ending balance	9,430,332	2,266,120	214,362	11,910,814	8,010,629	5,880,375	2,337,766	16,228,770

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2021								
Balance at beginning of period	7,243,400	596,470	915,654	8,755,524	7,329,774	3,430,961	2,084,059	12,844,794
Transfer from Stage 1 to Stage 2	(1,004,076)	1,004,076	-	-	(2,740,910)	2,740,910	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	(121,148)	-	121,148	-
Transfer from Stage 2 to Stage 1	141,504	(141,504)	-	-	300,906	(300,906)	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-	(587,032)	587,032	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New financial assets originated or purchased	3,162,060	120,490	-	3,282,550	4,278,559	251,073	17,193	4,546,825
Write-offs	-	-	(153,501)	(153,501)	-	-	(2,749)	(2,749)
Other movements including repayments	(1,216,080)	(307,855)	(283,372)	(1,807,307)	(1,148,006)	(1,142,771)	(313,366)	(2,604,143)
Ending balance	8,326,808	1,271,677	478,781	10,077,266	7,899,175	4,392,235	2,493,317	14,784,727

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in Credit loss allowance:

	Stage 1 12 - month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2022				
Balance at beginning of period	(525,586)	(612,166)	(2,891,665)	(4,029,417)
Transfer from Stage 1 to Stage 2	115,661	(115,661)	-	-
Transfer from Stage 1 to Stage 3	14,102	(130)	(13,972)	-
Transfer from Stage 2 to Stage 1	(86,933)	86,933	-	-
Transfer from Stage 2 to Stage 3	-	173,152	(173,152)	-
Transfer from Stage 3 to Stage 2	-	(52,790)	52,790	-
Impairment losses on new assets (a)	(215,391)	(170,142)	(11,395)	(396,928)
Net remeasurement of loss allowance (b)	231,306	(291,608)	(358,655)	(418,957)
Impairment losses on loans (a+b) (Note 11)	15,915	**(461,750)**	**(370,050)**	**(815,885)**
Write-offs	-	-	1,260,288	1,260,288
Other movements			(399,750)	(399,750)
Ending balance	(466,841)	(982,412)	(2,535,511)	(3,984,764)

	Stage 1 12 - month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2021				
Balance at beginning of period	(688,827)	(875,822)	(2,814,781)	(4,379,430)
Transfer from Stage 1 to Stage 2	99,175	(99,175)	-	-
Transfer from Stage 1 to Stage 3	14,921	(37)	(14,884)	-
Transfer from Stage 2 to Stage 1	(201,592)	201,592	-	-
Transfer from Stage 2 to Stage 3	-	268,857	(268,857)	-
Transfer from Stage 3 to Stage 2	-	(17,055)	17,055	-
Impairment losses on new assets (a)	(265,576)	(78,147)	(165,993)	(509,716)
Net remeasurement of loss allowance (b)	516,313	(12,379)	(787,647)	(283,713)
Impairment losses on loans (a+b) (Note 11)	**250,737**	**(90,526)**	**(953,640)**	**(793,429)**
Write-offs	-	-	1,377,192	1,377,192
Other movements	-	-	(233,750)	(233,750)
Ending balance	(525,586)	(612,166)	(2,891,665)	(4,029,417)

The balance in Other movements mainly consists of repayments.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in Credit loss allowance: (Continued)

	Mortgage				Consumer			
	Stage 1 12 month ECL	**Stage 2 Lifetim e ECL**	**Stage 3 Credit Impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**
December 31,2022								
Balance at beginning of period	(7,094)	(41,055)	(56,991)	(105,140)	(271,015)	(147,537)	(1,166,758)	(1,585,310)
Transfer from Stage 1 to Stage 2	519	(519)	-	-	52,870	(52,870)	-	-
Transfer from Stage 1 to Stage 3	130	(130)	-	-	11,985	-	(11,985)	-
Transfer from Stage 2 to Stage 1	(5,490)	5,490	-	-	(26,164)	26,164	-	-
Transfer from Stage 2 to Stage 3	-	2,072	(2,072)	-	-	60,691	(60,691)	-
Transfer from Stage 3 to Stage 2	-	(11,883)	11,883	-	-	(39,686)	39,686	-
Impairment losses on new assets (a)	(622)	(73)	-	(695)	(100,548)	(124,787)	(10,709)	(236,044)
Net remeasurement of loss allowance (b)	9,932	8,513	(16,592)	1,853	151,945	(161,759)	(393,247)	(403,061)
Impairment losses on loans (a+b) (Note 11)	**9,310**	**8,440**	**(16,592)**	**1,158**	**51,397**	**(286,546)**	**(403,956)**	**(639,105)**
Write-offs	-	-	6,785	6,785	-	-	588,303	588,303
Other movements			(13,697)	(13,697)			(142,172)	(142,172)
Ending balance	(2,625)	(37,585)	(70,684)	(110,894)	(180,927)	(439,784)	(1,157,573)	(1,778,284)

	Mortgage				Consumer			
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired**	**Total**
December 31,2021								
Balance at beginning of period	(4,907)	(33,401)	(43,376)	(81,684)	(435,011)	(470,216)	(1,090,802)	(1,996,029)
Transfer from Stage 1 to Stage 2	190	(190)	-	-	14,105	(14,105)	-	-
Transfer from Stage 1 to Stage 3	37	(37)	-	-	12,769	-	(12,769)	-
Transfer from Stage 2 to Stage 1	(3,994)	3,994	-	-	(164,672)	164,672	-	-
Transfer from Stage 2 to Stage 3	-	1,216	(1,216)	-	-	199,584	(199,584)	-
Transfer from Stage 3 to Stage 2	-	(4,573)	4,573	-	-	(12,261)	12,261	-
Impairment losses on new assets (a)	(925)	(1,968)	-	(2,893)	(133,015)	(42,132)	(115,143)	(290,290)
Net remeasurement of loss allowance (b)	2,505	(6,096)	(9,033)	(12,624)	434,809	26,921	(748,896)	(287,166)
Impairment losses on loans (a+b) (Note 11)	**1,580**	**(8,064)**	**(9,033)**	**(15,517)**	**301,794**	**(15,211)**	**(864,039)**	**(577,456)**
Write-offs	-	-	2,413	2,413	-	-	1,090,003	1,090,003
Other movements	-	-	(10,352)	(10,352)	-	-	(101,828)	(101,828)
Ending balance	(7,094)	(41,055)	(56,991)	(105,140)	(271,015)	(147,537)	(1,166,758)	(1,585,310)

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in Credit loss allowance: (Continued)

	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2022								
Balance at beginning of period	(11,064)	(9,624)	(90,062)	(110,750)	(14,719)	(41,337)	(50,052)	(106,108)
Transfer from Stage 1 to Stage 2	1,457	(1,457)	-	-	1,654	(1,654)	-	-
Transfer from Stage 1 to Stage 3	138	-	(138)	-	270	-	(270)	-
Transfer from Stage 2 to Stage 1	(4,900)	4,900	-	-	(12,269)	12,269	-	-
Transfer from Stage 2 to Stage 3	-	2,602	(2,602)	-	-	1,654	(1,654)	-
Transfer from Stage 3 to Stage 2	-	(544)	544	-	-	(675)	675	-
Impairment losses on new assets (a)	(679)	(291)	(686)	(1,656)	(8,991)	(4,935)	-	(13,926)
Net remeasurement of loss allowance (b)	7,218	(5,274)	61,555	63,499	16,695	8,523	1,147	26,365
Impairment losses on loans (a+b) (Note 11)	**6,539**	**(5,565)**	**60,869**	**61,843**	**7,704**	**3,588**	**1,147**	**12,439**
Write-offs	-	-	50,570	50,570	-	-	15,601	15,601
Other movements			(101,168)	(101,168)			(11,160)	(11,160)
Ending balance	(7,830)	(9,688)	(81,987)	(99,505)	(17,360)	(26,155)	(45,713)	(89,228)

	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2021								
Balance at beginning of period	(8,828)	(19,174)	(104,577)	(132,579)	(14,816)	(32,041)	(43,264)	(90,121)
Transfer from Stage 1 to Stage 2	589	(589)	-	-	2,055	(2,055)	-	-
Transfer from Stage 1 to Stage 3	220	-	(220)	-	203	-	(203)	-
Transfer from Stage 2 to Stage 1	(7,945)	7,945	-	-	(6,482)	6,482	-	-
Transfer from Stage 2 to Stage 3	-	1,921	(1,921)	-	-	1,485	(1,485)	-
Transfer from Stage 3 to Stage 2	-	(85)	85	-	-	(136)	136	-
Impairment losses on new assets (a)	(773)	(446)	(47,869)	(49,088)	(6,614)	(10,810)	(546)	(17,970)
Net remeasurement of loss allowance (b)	5,888	2,710	(5,711)	2,887	10,935	(4,262)	561	7,234
Impairment losses on loans (a+b) (Note 11)	**5,115**	**2,264**	**(53,580)**	**(46,201)**	**4,321**	**(15,072)**	**15**	**(10,736)**
Write-offs	-	-	128,526	128,526	-	-	-	-
Other movements	-	-	(60,496)	(60,496)	-	-	(5,251)	(5,251)
Ending balance	(11,064)	(9,624)	(90,062)	(110,750)	(14,719)	(41,337)	(50,052)	(106,108)

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in Credit loss allowance: (continued)

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2022								
Balance at beginning of period	(70,082)	(42,654)	(323,890)	(436,626)	(151,612)	(329,959)	(1,203,912)	(1,685,483)
Transfer from Stage 1 to Stage 2	9,619	(9,619)	-	-	49,542	(49,542)	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	1,579	-	(1,579)	-
Transfer from Stage 2 to Stage 1	(7,769)	7,769	-	-	(30,341)	30,341	-	-
Transfer from Stage 2 to Stage 3	-	3,796	(3,796)	-	-	102,337	(102,337)	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	(2)	2	-
Impairment losses on new assets (a)	(24,187)	(6,226)	-	(30,413)	(80,364)	(33,830)	-	(114,194)
Net remeasurement of loss allowance (b)	10,765	(12,819)	24,992	22,938	34,751	(128,792)	(36,510)	(130,551)
Impairment losses on loans (a+b) (Note 11)	**(13,422)**	**(19,045)**	**24,992**	**(7,475)**	**(45,613)**	**(162,622)**	**(36,510)**	**(244,745)**
Write-offs	-	-	205,589	205,589	-	-	393,440	393,440
Other movements			-	-			(131,553)	(131,553)
Ending balance	(81,654)	(59,753)	(97,105)	(238,512)	(176,445)	(409,447)	(1,082,449)	(1,668,341)

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2021								
Balance at beginning of period	(68,561)	(12,244)	(539,034)	(619,839)	(156,704)	(308,746)	(993,728)	(1,459,178)
Transfer from Stage 1 to Stage 2	12,056	(12,056)	-	-	70,180	(70,180)	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	1,907	-	(1,907)	-
Transfer from Stage 2 to Stage 1	(5,503)	5,503	-	-	(12,996)	12,996	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-	66,557	(66,557)	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
Impairment losses on new assets (a)	(30,643)	(3,796)	-	(34,439)	(93,606)	(18,995)	(2,435)	(115,036)
Net remeasurement of loss allowance (b)	22,569	(20,061)	61,643	64,151	39,607	(11,591)	(86,211)	(58,195)
Impairment losses on loans (a+b) (Note 11)	**(8,074)**	**(23,857)**	**61,643**	**29,712**	**(53,999)**	**(30,586)**	**(88,646)**	**(173,231)**
Write-offs	-	-	153,501	153,501	-	-	2,749	2,749
Other movements	-	-	-	-	-	-	(55,823)	(55,823)
Ending balance	(70,082)	(42,654)	(323,890)	(436,626)	(151,612)	(329,959)	(1,203,912)	(1,685,483)

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

f) Fair value of collateral

The extent to which collateral mitigates credit risk is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The fair value of collateral by type of exposure is as follows:

In thousands of Denars

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
December 31,2022				
Mortgage	16,149,642	34,811,583	-	-
Consumer	4,535,969	14,626,107	30,937,837	14,100
Credit Cards	-	-	3,038,891	-
Small Business	4,887,894	12,466,302	924,672	235,826
Corporate Loans	21,801,955	62,453,575	4,430,776	1,659,763
Total	47,375,460	124,357,567	39,332,176	1,909,689

In thousands of Denars

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
December 31,2021				
Mortgage	13,577,060	29,914,018	0	0
Consumer	4,225,462	13,470,204	30,717,231	16,853
Credit Cards	0	0	3,095,166	0
Small Business	3,975,315	11,052,680	766,522	162,375
Corporate Loans	18,220,129	53,000,326	4,519,755	1,939,084
Total	39,997,966	107,437,228	39,098,674	2,118,312

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

g) Loan forbearance to customers

The Group performs Forbearance of loans to customers as prescribed in the SB NPE and Forbearance Policy. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). The concessions may include the following:

- prolongation of maturity date;
- amendments of the instalment amount and/or frequency of repayments, including granting a new or prolongation of the existing grace period;
- reduction of the interest rate;
- consolidating more loans into one by changing the contractual terms including interest capitalization;
- write-off of principle, interest and/or fees;
- reduction of the credit exposure through enforcement of collateral.

Upon forbearance of the loan, the Bank performs a financial analysis of the borrower to identify occurrence of financial difficulty and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is renegotiated.

As of 31.12.2022 the Bank has renegotiated loans at a total amount of Denar 1,706,030 thousand (2021: Denar 1,795,307 thousand).

When the modification is not considered substantial in order to lead to derecognition, the gain or loss arising from the modification is calculated as the difference between the present value of the new contractual cash flows (i.e. based on the modified terms) discounted by the original effective interest rate of the loan and the carrying amount post write-off (if any), and is recognized in the income statement in "Interest income".

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.5 Cash and balances with the central bank, investment in securities and placement with, and loans to banks

Cash and balances with the central bank are classified in Stage 1. Issuer of the treasury bills is the National Bank of the Republic of North Macedonia. S&P assigned to the RNM sovereign foreign and local currency long term ratings of BB+ and short term ratings of BB-, with stable outlook. Accounts and deposits with foreign banks are placed in the banks that have S&P bank or sovereign rating from AAA to A- in amount of Denar 1,639,029 thousands (2021: Denar 4,552,194 thousands) rating from BBB+ to B+ in amount of Denar 70,134 thousands (2021: Denar 28,928 thousands). Deposits in NBG have credit rating to B+, in amount of Denar 9,337 thousand (2021: B+ rating, Denar 9,372 thousands). Time deposits up to three months are also in first class banks with S&P bank or sovereign rating from AAA to A- and from BBB to B-.

Securities measured at FVOCI consists of equity securities and Government bills.

Securities measured at amortized cost, classified as Stage 1, consists of debt securities issued by the Government of the RNM, are with S&P BB+/BB- rating.

Placement with, and loans to banks, classified as Stage 1, in amount of Denar 288,451 thousands (2021: Denar 269,256 thousands), has S&P bank or sovereign rating from AAA to A+ and the part of loans in foreign banks, are classified as Stage 3, in net amount of Denar 8,986 thousand (2021: Denar 8,862 thousands).

4.2.6 Foreclosed assets

During 2022, the Group conducted appraisals on the total foreclosed assets portfolio in order to determine the fair value of the assets.

In this period, the Group sold 20 assets (2021: 25 assets) at a total value of Denar 19,846 thousand (2021: Denar 118,654 thousand), whereas it foreclosed 6 facilities (2021: 13 facilities) at a total value of Denar 21,945 thousand (2021: Denar 25,261 thousand). The general policy of the Group is to sell these facilities within a maximum period of 3 years, based on which the Group is undertaking appropriate activities to release it.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.7 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2022 and 2021. In this table, the Group has allocated exposures to regions based on the country of domicile of the counterparties.

	Cash and balances with the central bank at amortized cost		Financial assets through profit and loss		Investment securities		Placement with, and loans to banks at amortized cost		Loans to customers at amortized cost		Other financial receivables		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Geographical region														
RNM	16,896,432	13,626,749	-	-	10,368,057	12,277,678	-	-	86,707,636	79,096,640	1,545,813	1,531,040	115,517,938	106,532,107
EU member countries	2,798,671	5,287,004	-	-	31	31	91,199	86,010	-	-	-	-	2,889,901	5,373,045
Europe (other)	-	-	2,021	1,999	-	-	8,986	8,862	-	-	-	-	11,007	10,861
OECD member countries (less European OECD member countries)	2,774,341	1,954,042	-	-	-	-	-	-	-	-	-	-	2,774,341	1,954,042
Other	-	-	-	-	-	-	197,252	183,246	-	-	-	-	197,252	183,246
Total	22,469,444	20,867,795	2,021	1,999	10,368,088	12,277,709	297,437	278,118	86,707,636	79,096,640	1,545,813	1,531,040	121,390,439	114,053,301

Credit risk exposure relating to off-balance sheet items entirely relates to the geographical region of the Republic of North Macedonia.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.7 Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sector

The table breaks down the Group’s main credit exposure of the on balance sheet financial assets at their carrying amounts, as summarized by the industry sectors of the counterparties

	Cash and balances with the central bank at amortized cost		Financial assets through profit and loss		Investment in securities		Placements with and loans to banks at amortized cost		Loans to customers at amortized cost		Other financial receivables		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Industry														
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	679,205	513,828	-	22	679,205	513,850
Mining and quarrying	-	-	-	-	-	-	-	-	481,467	278,707	-	-	481,467	278,707
Manufacturing	-	-	-	-	-	-	-	-	10,920,673	9,482,393	4	57,945	10,920,677	9,540,338
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	2,356,933	1,911,042	201	214	2,357,134	1,911,256
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	31,964	9,175	20	-	31,984	9,175
Construction	-	-	-	-	-	-	-	-	3,485,123	2,944,274	149	333	3,485,272	2,944,607
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	-	2,041	1,895	-	-	8,912,799	7,550,345	6,395	1,122	8,921,235	7,553,362
Transportation and storage	-	-	-	-	-	-	-	-	822,534	997,738	369	1,792	822,903	999,530
Accommodation and food service activities	-	-	-	-	-	-	-	-	751,760	825,085	20	99	751,780	825,184
Information and communication	-	-	-	-	-	-	-	-	332,592	312,987	968	543	333,560	313,530
Financial and insurance activities	22,469,444	20,867,795	2,021	1,999	90,543	83,316	297,437	278,118	208,818	78,094	503	18	23,068,766	21,309,340
Real estate activities	-	-	-	-	-	-	-	-	879,165	437,886	-	-	879,165	437,886
Professional, scientific and technical activities	-	-	-	-	-	-	-	-	603,118	470,236	76	-	603,194	470,236
Administrative and support service activities	-	-	-	-	-	-	-	-	1,034,651	1,136,810	-	191	1,034,651	1,137,001
Public administration and defense; compulsory social security	-	-	-	-	10,275,504	12,192,498	-	-	27,639	29,973	1,454,008	1,306,014	11,757,151	13,528,485
Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Human health and social work activities	-	-	-	-	-	-	-	-	483,032	485,416	977	-	484,009	485,416
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	4,094	3,509	204	-	4,298	3,509
Other service activities	-	-	-	-	-	-	-	-	29,730	14,224	65	68	29,795	14,292
Individuals	-	-	-	-	-	-	-	-	54,662,339	51,614,918	344,468	162,679	55,006,807	51,777,597
Total	22,469,444	20,867,795	2,021	1,999	10,368,088	12,277,709	297,437	278,118	86,707,636	79,096,640	1,808,427	1,531,040	121,653,053	114,053,301

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.7 Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sector (Continued)

The table breaks down the Group's main credit exposure of the off-balance sheet items at their carrying amounts, as summarized by the industry sectors of the counterparties.

	In thousands of Denars	
	2022	**2021**
Industry		
Agriculture, forestry and fishing	105,908	230,570
Mining and quarrying	31,921	24,682
Manufacturing	4,344,612	2,905,556
Electricity, gas, steam and air conditioning supply	3,165,783	878,785
Water supply; sewerage, waste management and remediation activities	14,169	6,807
Construction	1,865,584	2,006,986
Wholesale and retail trade; repair of motor vehicles and motorcycles	3,447,371	3,295,879
Transportation and storage	646,553	372,284
Accommodation and food service activities	54,427	52,573
Information and communication	31,528	60,780
Financial and insurance activities	315,624	206,484
Real estate activities	-	6,560
Professional, scientific and technical activities	144,699	112,352
Administrative and support service activities	162,884	136,081
Public administration and defense; compulsory social security	330	1,982
Education	3,760	4,254
Human health and social work activities	6,614	22,708
Arts, entertainment and recreation	820	-
Activities of extraterritorial organizations and bodies	117,708	-
Other service activities	5,507	16,693
Individuals	6,604,188	7,219,255
Total	21,069,990	17,561,271

4.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, interest rate, and equity products, all of which are exposed to market movements and changes in the level of volatility of market rates or prices (such as interest rates, credit spreads, foreign exchange rates and equity prices).

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Currency risk)

Currency risk represents the risk of loss as a result of change in cross currency rates and/or MKD value change regarding the value of the other foreign currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. In order to achieve better currency risk management, the Group establishes internal limits on open currency position. The Group sets limits on the level of exposure by currency and in aggregate for all currencies. Monitoring and managing of the currency risk of SB is performed on daily basis, taking into consideration all instruments and activities which affect the OCP. The tables below summarize Group's exposure to foreign exchange risk as at December 31, 2022 and 2021:

In thousands of Denars
December 31, 2022

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and balances with the central bank at amortized cost	7,122,972	2,850,712	1,618,205	11,591,889	10,877,555	22,469,444
Financial assets at fair value through profit and loss	2,021	-	-	2,021	-	2,021
Investment securities at fair value through other comprehensive income	597,808	-	-	597,808	92,553	690,361
Investment securities at amortized cost	8,502,209	-	-	8,502,209	1,175,518	9,677,727
Placement with, and loans to banks at amortized cost	4,630	290,892	1,915	297,437	-	297,437
Loans to customers at amortized cost	25,932,493	13,491	-	25,945,984	60,761,652	86,707,636
Other financial receivables	2,480	146	14,647	17,273	1,528,540	1,545,813
Total assets	42,164,613	3,155,241	1,634,767	46,954,621	74,435,818	121,390,439
LIABILITIES						
Deposits from banks	2,481,327	405,202	15,783	2,902,312	3	2,902,315
Deposits from customers	36,076,544	2,742,671	1,589,806	40,409,021	53,984,736	94,393,757
Loans payable	1,831,856	-	-	1,831,856	98,840	1,930,696
Other financial liabilities	235,774	-	-	235,774	1,005,751	1,241,525
Lease liability	156,323	-	-	156,323	-	156,323
Total liabilities	40,781,824	3,147,873	1,605,589	45,535,286	55,089,330	100,624,616
Net currency gap:	1,382,789	7,368	29,178	1,419,335	19,346,488	20,765,823

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

In thousands of Denars
December 31, 2021

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and balances with the central bank at amortized cost	7,387,642	2,534,138	1,674,329	11,596,109	9,271,686	20,867,795
Financial assets at fair value through profit and loss	1,999	-	-	1,999	-	1,999
Investment securities at fair value through other comprehensive income	1,164,841	-	-	1,164,841	981,688	2,146,529
Investment securities at amortized cost	8,957,950	-	-	8,957,950	1,173,230	10,131,180
Placement with, and loans to banks at amortized cost	3,974	271,558	2,586	278,118	-	278,118
Loans to customers at amortized cost	19,512,684	127,945	-	19,640,629	59,456,011	79,096,640
Other financial receivables	8,597	292	150,591	159,480	1,371,560	1,531,040
	-	-	-	-	-	-
Total assets	37,037,687	2,933,933	1,827,506	41,799,126	72,254,175	114,053,301
LIABILITIES						
Deposits from banks	1,239,703	166,649	18,981	1,425,333	3	1,425,336
Deposits from customers	33,585,865	2,760,830	1,649,360	37,996,055	51,677,376	89,673,431
Loans payable	1,686,298	-	-	1,686,298	-	1,686,298
Other financial liabilities	218,284	-	1	218,285	1,126,995	1,345,280
Lease liability	112,616	-	-	112,616	-	112,616
	-	-	-	-	-	-
Total liabilities	36,842,766	2,927,479	1,668,342	41,438,587	52,804,374	94,242,961
	-	-	-	-	-	-
Net currency gap:	194,921	6,454	159,164	360,539	19,449,801	19,810,340

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk

The Group is exposed to effects arising from movements at level of interest rates in the market that affect its financial position and cash flows. Taking into account the fact that the trading portfolio of the Group is inconsiderable, the interest rate risk exposure is assessed from the aspect of Banking Book. The risk of change in interest rates in the Banking Book is the current or possible risk for profit (net interest income) and / or capital that arises from negative movements in interest rates, which affect the positions in the Banking Book. The assuming of this risk is part of banking activities and may be a significant source for profitability and shareholder value. Nonetheless, excessive risk of change in interest rates may represent a significant threat to the profit and capital base of the Group. The Group has established a framework for managing this risk in order to minimize the effects of negative changes in future interest rates by establishing and monitoring appropriate limits and utilizing techniques to measure the exposure to risk of changes in interest rates in Banking Book.

The tables below summarize the Group's interest bearing and non-interest bearing assets and liabilities as of December 31, 2022 and 2021.

In thousands of Denars

December 31, 2022

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Interest bearing	Non-interest bearing	Total
ASSETS									
Cash and balances with the central bank at amortized cost	14,007,795	-	-	-	-	-	14,007,795	8,461,649	22,469,444
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-	2,021	2,021
Investment securities at fair value through other comprehensive income	-	-	597,779	-	-	-	597,779	92,582	690,361
Investment securities at amortized cost	300,000	-	2,172,901	2,515,285	2,892,630	1,683,831	9,564,647	113,080	9,677,727
Placement with, and loans to banks at amortized cost	288,451	-	-	-	-	-	288,451	8,986	297,437
Loans to customers at amortized cost	48,781,423	2,138,847	9,761,439	14,768,933	5,547,313	5,709,681	86,707,636	-	86,707,636
Other financial receivables	-	-	-	-	-	-	-	1,545,813	1,545,813
Total assets	63,377,669	2,138,847	12,532,119	17,284,218	8,439,943	7,393,512	111,166,308	10,224,131	121,390,439
LIABILITIES									
Deposits from banks	1,362,425	1,537,330	-	-	-	-	2,899,755	2,560	2,902,315
Deposits from customers	64,853,905	3,665,266	15,819,494	5,737,514	3,962,278	156,914	94,195,371	198,386	94,393,757
Loans payable	110,594	-	331,206	441,540	515,052	532,303	1,930,695	1	1,930,696
Other financial liabilities	-	-	-	-	-	-	-	1,241,525	1,241,525
Lease liability	35	188	3,986	6,777	70,960	74,377	156,323	-	156,323
Total liabilities	66,326,959	5,202,784	16,154,686	6,185,831	4,548,290	763,594	99,182,144	1,442,472	100,624,616
Net interest gap:	(2,949,290)	(3,063,937)	(3,622,567)	11,098,387	3,891,653	6,629,918	11,984,164	8,781,659	20,765,823

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

In thousands of Denars

December 31, 2021

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Interest bearing	Non-interest bearing	Total
ASSETS									
Cash and balances with the central bank at amortized cost	9,079,214	-	-	-	-	-	9,079,214	11,788,581	20,867,795
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-	1,999	1,999
Investment securities at fair value through other comprehensive income	449,977	146,967	1,461,676	-	-	-	2,058,620	87,909	2,146,529
Investment securities at amortized cost	-	-	349,618	4,182,261	3,803,164	1,686,691	10,021,734	109,446	10,131,180
Placement with, and loans to banks at amortized cost	269,256	-	-	-	-	-	269,256	8,862	278,118
Loans to customers at amortized cost	41,837,585	1,267,374	11,918,060	15,028,743	6,077,404	2,967,474	79,096,640	-	79,096,640
Other financial receivables	-	-	-	-	-	-	-	1,531,040	1,531,040
Total assets	51,636,032	1,414,341	13,729,354	19,211,004	9,880,568	4,654,165	100,525,464	13,527,837	114,053,301
LIABILITIES									
Deposits from banks	192,788	-	1,232,540	-	-	-	1,425,328	8	1,425,336
Deposits from customers	61,562,524	4,220,600	16,950,708	4,998,231	1,445,177	148,427	89,325,667	347,764	89,673,431
Loans payable	18,519	-	137,993	316,853	592,328	620,577	1,686,270	28	1,686,298
Other financial liabilities	-	-	-	-	-	-	-	1,345,280	1,345,280
Lease liability	7	1,268	3,862	10,191	71,523	25,765	112,616	-	112,616
Total liabilities	61,773,838	4,221,868	18,325,103	5,325,275	2,109,028	794,769	92,549,881	1,693,080	94,242,961
Net interest gap:	(10,137,806)	(2,807,527)	(4,595,749)	13,885,729	7,771,540	3,859,396	7,975,583	11,834,757	19,810,340

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk

Liquidity risk represents a risk of Group's inability to provide sufficient monetary assets to settle its short-term liabilities when they come due, i.e. a risk that the necessary liquid assets will be provided at much higher cost.

4.4.1 Liquidity risk management process

The Group's liquidity risk management process encompasses:

- Application of operating standards related to the Group's liquidity risk, including appropriate policies, procedures and resources for controlling and limiting liquidity risk;
- Maintenance of stock of liquid assets appropriate for the cash flow profile of the Group which can be readily converted into cash without incurring undue capital losses;
- Measurement, control and scenario testing of funding requirements, as well as access to funding sources;
- Preparing contingency plans of the Group for handling liquidity disruptions by means of the ability to fund some or all activities in a timely manner and at a reasonable cost;
- Monitoring liquidity risk limits and ratios, taking into account the Group's risk appetite and profile, as well as the regulatory requirements for prescribed minimum level of liquidity rates.

The process of managing liquidity and liquidity risk is implemented through the establishment of adequate daily liquidity management through developing liquidity plans. The plans reflect the liquidity provided by cash flows and liquidity needed to be funding the cash outflows.

During preparation of plans and projections for liquidity on a daily, weekly, monthly and long-term basis, all relevant aspects are taken in consideration - the established limits, maintaining the required currency structure, maturity matching of assets and sources of funds and other regulatory rules.

Monitoring of the Group's liquidity is performed by the Treasury Division. The Treasury Division reconciles all inflows and/or outflows in all currencies along with money orders, checks, bank transfers and account transfers.

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

The contractual undiscounted cash outflows of the Group's financial liabilities by remaining contractual maturity are presented in the tables below. The financial assets are presented at their carrying amounts.

In thousands of Denars
December 31, 2022

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and balances with the central bank at amortized cost	22,467,683	1,761	-	-	-	-	22,469,444
Financial assets at fair value through profit and loss	2,021	-	-	-	-	-	2,021
Investment securities at fair value through other comprehensive income	448,368	149,409	-	-	-	92,584	690,361
Investment securities at amortized cost	92,102	-	3,857,034	299,491	3,732,226	1,696,874	9,677,727
Placement with, and loans to banks at amortized cost	-	-	-	-	-	297,437	297,437
Loans to customers at amortized cost	3,329,702	5,037,585	18,318,260	11,876,682	20,310,931	27,834,476	86,707,636
Other financial receivables	1,545,813	-	-	-	-	-	1,545,813
Total assets	27,885,689	5,188,755	22,175,294	12,176,173	24,043,157	29,921,371	121,390,439
LIABILITIES AND EQUITY							
Deposits from banks	1,364,985	1,537,330	-	-	-	-	2,902,315
Deposits from customers	63,798,255	3,755,739	16,383,996	6,138,777	4,135,215	181,775	94,393,757
Loans payable	110,595	-	331,206	441,540	515,052	532,303	1,930,696
Other financial liabilities	1,150,547	-	-	-	-	90,978	1,241,525
Lease liability	35	188	3,986	6,777	70,960	74,377	156,323
Total liabilities and equity	66,424,417	5,293,257	16,719,188	6,587,094	4,721,227	879,433	100,624,616
Net liquidity gap	(38,538,728)	(104,502)	5,456,106	5,589,079	19,321,930	29,041,938	20,765,823

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2021

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and balances with the central bank at amortized cost	20,867,608	187	-	-	-	-	20,867,795
Financial assets through profit and loss	1,999	-	-	-	-	-	1,999
Investment securities at fair value through other comprehensive income	450,166	146,936	1,464,215	-	-	85,212	2,146,529
Investment securities at amortized cost	132,077	-	348,836	4,172,766	3,794,669	1,682,832	10,131,180
Placement with, and loans to banks at amortized cost	-	-	-	-	-	278,118	278,118
Loans to customers at amortized cost	3,292,987	4,139,131	16,371,396	11,303,990	18,934,424	25,054,712	79,096,640
Other financial receivables	1,531,040	-	-	-	-	-	1,531,040
Total assets	26,275,877	4,286,254	18,184,447	15,476,756	22,729,093	27,100,874	114,053,301
LIABILITIES AND EQUITY							
Deposits from banks	192,796	-	1,232,540	-	-	-	1,425,336
Deposits from customers	59,272,901	4,636,218	17,577,455	5,764,230	2,241,738	180,889	89,673,431
Loans payable	18,547	-	137,993	316,853	592,329	620,576	1,686,298
Other financial liabilities	1,254,302	-	-	-	-	90,978	1,345,280
Lease liability	7	1,268	3,862	10,191	71,523	25,765	112,616
Total liabilities and equity	60,738,553	4,637,486	18,951,850	6,091,274	2,905,590	918,208	94,242,961
Net liquidity gap	(34,462,676)	(351,232)	(767,403)	9,385,482	19,823,503	26,182,666	19,810,340

Group s assets and liabilities are classified according to their contractual maturities as at December 31, 2022 and 2021, except for loans and claims on other clients where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, overdrafts, etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products. Although the initial analysis reveals that there is no reconciliation between assets and liabilities for the period up to one year, significant part of the Group's deposits up to one year are stable and considered as core deposits, amounts to Denar 78,225,164 thousand (2021: Denar 76,625,260 thousand) and the Group does not expect them to be withdrawn based on the contractual maturities, which helps the maturity non-reconciliation to be overcome.

4.4.2 Contractual maturity analysis for non-derivative financial liabilities (undiscounted cash flow)

The table below presents the cash flows payable by the Group by remaining contractual maturities of non-derivative financial liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.2 Contractual maturity analysis for non-derivative financial liabilities (undiscounted cash flow) (Continued)

In thousands of Denars
December 31, 2022

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	36,453	1,328,533	1,537,330	-	-	-	-	-	-	2,902,316
Deposits from customers	61,398,076	2,445,204	3,770,287	16,447,375	6,179,125	3,913,900	137,828	104,487	184,399	94,580,681
Loans payable	2,134	110,596	-	331,208	441,541	214,418	150,317	150,317	530,169	1,930,700
Other financial liabilities	1,148,422	-	-	-	-	-	-	-	93,111	1,241,533
Lease liability	-	35	188	3,991	6,788	27,427	28,407	15,181	74,535	156,552
Total	62,585,085	3,884,368	5,307,805	16,782,574	6,627,454	4,155,745	316,552	269,985	882,214	100,811,782

In thousands of Denars
December 31, 2021

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	29,668	163,127	-	1,232,541	-	-	-	-	-	1,425,336
Deposits from customers	56,645,983	2,704,916	4,652,125	17,645,071	5,797,314	2,041,295	119,378	114,446	184,124	89,904,652
Loans payable	2,109	18,619	-	138,167	316,920	316,597	137,869	137,868	618,468	1,686,617
Other financial liabilities	1,252,194	-	-	-	-	-	-	-	93,086	1,345,280
Lease liability	-	7	1,270	3,868	10,208	20,076	38,531	12,963	25,774	112,697
Total	57,929,954	2,886,669	4,653,395	19,019,647	6,124,442	2,377,968	295,778	265,277	921,452	94,474,582

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.3 Contractual maturity analysis for off-balance sheet items (undiscounted cash flow)

In thousands of Denars
December 31, 2022

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend Credits	16,379,072	-	-	-	-	-	-	-	-	16,379,072
Financial guarantees and LCs	4,480,363	-	2,059	219,571	-	-	-	-	-	4,701,993
Total	20,859,435	-	2,059	219,571	-	-	-	-	-	21,081,065

In thousands of Denars
December 31, 2021

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	13,367,430	-	-	-	-	-	-	-	-	13,367,430
Financial guarantees and LCs	3,380,327	2,999	97,792	719,384	-	-	-	-	-	4,200,502
Total	16,747,757	2,999	97,792	719,384	-	-	-	-	-	17,567,932

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

In thousands of Denars

	Carrying amount		Fair value	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Financial assets				
Cash and balances with the central bank at amortized cost	22,469,444	20,867,795	22,469,444	20,867,795
Financial assets through profit and loss	2,021	1,999	2,021	1,999
Investment securities at fair value through other comprehensive income	690,361	2,146,529	690,361	2,146,529
Investment securities at amortized cost	9,677,727	10,131,180	9,111,890	10,038,060
Placement with, and loans to Banks at amortized cost	297,437	278,118	297,437	278,118
Loans to customers at amortized cost	86,707,636	79,096,640	86,707,636	79,096,640
Other financial receivables (less foreclosure assets)	1,545,813	1,531,040	1,545,813	1,531,040
	121,390,439	114,053,301	120,824,602	113,960,181
Financial liabilities				
Deposits from banks	2,902,315	1,425,336	2,902,315	1,425,336
Deposits from customers	94,393,757	89,673,431	94,393,757	89,673,431
Loans payable	1,930,696	1,686,298	1,930,696	1,686,298
Other financial liabilities	1,397,848	1,457,896	1,397,848	1,457,896
	100,624,616	94,242,961	100,624,616	94,242,961

Cash and balances with the central bank

The carrying amount of Cash and balances with the central bank equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with NBRNM, which mature shortly. Fair value of treasury and other eligible bills is based on discounted cash flows.

Financial assets through profit and loss

Fair value as determined by reference to market prices equal to their carrying amount.

Financial assets through other comprehensive income

Their fair value is measured based on quoted prices or amounts derived from cash flow models. Consequently, their fair value is their carrying amount.

Placement with, and loans to banks

The majority of the time deposits represent overnight deposits. The fair value of the overnight deposits and sight placements is their carrying amount. The smaller portion of the time deposits are fixed interest bearing deposits, which estimated fair value determined based on discounting cash flow using interest rates for similar placements.

Loans to customers

Loans are net of provisions for impairment. The major part of the loans to customers is with floating interest rate reflecting the current market conditions. The remaining part of the loans with fixed interest rate relates to “teaser loans”, for which the fair value is estimated based on the discounted cash flow.

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Other receivables, less foreclosure assets

Other receivables approximate their fair value as they will mature shortly.

Deposits from banks

The fair value of sight and time deposits from banks and other financial institutions is their carrying amount.

Financial liabilities through profit and loss

Fair value as determined by inputs derived from market prices.

Deposits from customers

The fair value of the sight deposits and the deposits with floating interest rate is their carrying amount. The estimated fair value of the deposits with fixed interest rate is based on discounted cash flows using the interest rate for similar deposits with similar maturity.

Loans payable

The interest rates of loans payable are reflecting the current market conditions, therefore their fair value is approximate as their carrying amount.

Other liabilities

Other liabilities approximate their fair value as they will mature shortly.

Fair value hierarchy

The Group classifies all financial assets and liabilities at fair value, using fair value hierarchy which reflects the significance of inputs used in determining fair value. The fair value hierarchy includes the following levels:

a) Level 1 - Fair value is determined directly with reference to quoted market prices of the financial instruments in active markets;

b) Level 2 -Fair value is determined using valuation techniques that include active markets inputs, which can be direct, i.e. prices, or indirect, i.e. derived from prices;

c) Level 3- Fair value is determined using valuation techniques that include inputs that cannot be directly or indirectly followed on the active markets, or are not visible.

There were no transfers between Level 1 and 2 in the period.

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy (Continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

				In thousands of Denars December 31, 2022
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets through profit and loss	2,021	2,021	-	-
Securities measured at FVTOCI				
Equity securities	92,584	-	68,177	24,407
Government bills	597,777	-	597,777	-
Securities measured at amortized cost				
Government continued coupon bond	4,501,570	-	4,501,570	-
Eurobonds	4,608,820	-	4,608,820	-
Corporate bond	1,500		1,500	
Total	9,804,272	2,021	9,777,844	24,407

				In thousands of Denars December 31, 2021
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets through profit and loss	1,999	1,999	-	-
Securities measured at FVTOCI				
Equity securities	85,212	-	60,805	24,407
Government bills	2,061,317	-	2,061,317	-
Securities measured at amortized cost				
Government bills	-	-	-	-
Government continued coupon bond	4,920,860	-	4,920,860	-
Eurobonds	5,117,200	-	5,117,200	-
Total	12,186,588	1,999	12,160,182	24,407

Level 3 financial instruments at December 31, 2022 and 2021 include non-marketable private equity securities measured at FVTOCI where prices are determined by the price of the most recent investments, based on which it is not practical to quote a range of key unobservable inputs.

Reconciliation of the fair value measurement in level 3 is not presented since there was no movement during 2022 (2021: none).

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' presented in the balance sheet, are:

- to comply with the capital requirements set by NBRNM;
- to safeguard the Group's ability to continue as a successful company providing positive financial results and benefits for other stakeholders; and
- to maintain a strong capital base to support further successful activity.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management, employing techniques based on the directives set by the regulator, for supervisory purposes. The required information is sent to NBRNM on a quarterly basis.

According to the Decision on the methodology on determining the capital adequacy, the Group's regulatory capital (own funds) is divided into two tiers:

- Tier 1 capital: consisted of two parts, common equity tier 1 and additional Tier 1 capital. The common equity tier 1 capital is consisting of share capital, retained undistributed profit restricted for distribution to shareholders, reserves created from retained profit, as well as accumulated other comprehensive income. The Group has no additional tier 1 capital as disposal; and
- Tier 2: In position capital instruments are presented cumulative preferred shares, listed as such in the shareholder book of the Group which is maintained in the Central Securities Depository, and are presented in Tier 2 as per the Decision on the methodology for determining the capital adequacy

The legally prescribed minimum rate for risk-weighted assets is: 4.5% for the common equity tier 1 capital, 6% for the tier 1 capital and 8% for own funds.

Furthermore, in accordance with the assessment of the whole risk profile of the Group, NBRNM determines additional capital of 4.0% and the Group is obliged to maintain capital adequacy rate of at least 12.0%.

The Group is obliged additionally to maintain capital buffers prescribed by the Law on banks, namely capital conservation buffer of 2.5% and systemically important banks buffer of 1.5%.

The Group is complied with the prescribed capital adequacy ratio of at least 16% as at 31.12.2022.

The Group is calculating the capital adequacy rate in accordance with the Decision on the methodology for determining the capital adequacy of NBRNM, according to which the manner is prescribed for calculating the capital required for banks to cover the credit risk, operational risk, market risks and the currency risk.

The calculation of the capital required for covering the credit risk is based on the so-called standardized approach according to Basel II. The Group is obliged to distribute the on-balance sheet and off-balance sheet claims in appropriate categories of exposure and to provide them with a risk weight depending on the credit quality degree of the debtor or the claim. Capital to cover the operational risk is also calculated according standardized approach. The calculation of the capital for currency risk is to the net amount of aggregate foreign currency position taking into consideration the impairment. The Group is not obliged to determine and dispose of the capital required for covering the market risks.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Group for the years ended December 31, 2022 and 2021 regarding the requirement of regulatory authority. During these two years, the Group complied with all of the regulatory imposed capital requirements.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management (Continued)

	In thousands of Denars December 31, 2022
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	13,036,120
Accumulated other comprehensive income	147,155
Total qualifying Tier 1 capital	16,694,517
Tier 2 capital	
Cumulative non-voting shares	90,978
Total qualifying Tier 2 capital	90,978
Total regulatory capital	16,785,495
Credit risk-weighted assets	
On-balance sheet	86,644,950
Off-balance sheet	4,822,536
Total credit risk-weighted assets	91,467,486
FX risk-weighted assets	1,536,624
Operational risk-weighted assets	7,834,414
Risk-weighted assets	100,838,524
Capital adequacy ratio	16.65%

	In thousands of Denars December 31, 2021
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	11,185,164
Accumulated other comprehensive income	112,832
Total qualifying Tier 1 capital	14,809,238
Tier 2 capital	
Cumulative non-voting shares	90,978
Total qualifying Tier 2 capital	90,978
Total regulatory capital	14,900,216
Credit risk-weighted assets	
On-balance sheet	77,878,104
Off-balance sheet	4,757,459
Total credit risk-weighted assets	82,635,563
FX risk-weighted assets	-
Operational risk-weighted assets	7,665,943
Risk-weighted assets	90,301,506
Capital adequacy ratio	16.50%

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

The currency risk management, performed by monitoring the assets and liabilities in foreign currencies, is supplemented by conducting sensitivity analysis of the Group's foreign currencies assets and liabilities. Therefore, appropriate scenario (change of the exchange rates by +10% i.e. -10%, with respect to the Denar) is used.

		In thousands of Denars Change in exchange rate	
December 31, 2022	**Total**	**10%**	**-10%**
ASSETS			
Cash and balances with the central bank at amortized cost	22,469,444	1,159,189	(1,159,189)
Financial assets through profit and loss	2,021	202	(202)
Investment securities at fair value through other comprehensive income	690,361	59,781	(59,781)
Investment securities at amortized cost	9,677,727	850,221	(850,221)
Placement with, and loans to banks at amortized cost	297,437	29,744	(29,744)
Loans to customers at amortized cost	86,707,636	2,594,598	(2,594,598)
Other financial receivables	1,545,813	1,727	(1,727)
Total assets	121,390,439	4,695,462	(4,695,462)
LIABILITIES			
Deposits from banks	2,902,315	290,231	(290,231)
Deposits from customers	94,393,757	4,040,902	(4,040,902)
Loans payable	1,930,696	183,186	(183,186)
Other financial liabilities	1,241,525	23,577	(23,577)
Lease liability	156,323	15,632	(15,632)
Total liabilities	100,624,616	4,553,528	(4,553,528)
Net currency gap:	20,765,823	141,934	(141,934)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.1 Sensitivity analysis (foreign currency) (Continued)

December 31, 2021		**In thousands of Denars**	
		Change in exchange rate	
	Total	**+10%**	**-10%**
ASSETS			
Cash and balances with the central bank at amortized cost	20,867,795	1,159,611	(1,159,611)
Financial assets through profit and loss	1,999	200	(200)
Investment securities at fair value through other comprehensive income	2,146,529	116,484	(116,484)
Investment securities at amortized cost	10,131,180	895,795	(895,795)
Placement with, and loans to banks at amortized cost	278,118	27,812	(27,812)
Loans to customers at amortized cost	79,096,640	1,964,063	(1,964,063)
Other financial receivables	1,531,040	15,948	(15,948)
Total assets	114,053,301	4,179,913	(4,179,913)
LIABILITIES			
Deposits from banks	1,425,336	142,533	(142,533)
Deposits from customers	89,673,431	3,799,606	(3,799,606)
Loans payable	1,686,298	168,630	(168,630)
Other financial liabilities	1,345,280	21,829	(21,829)
Lease liability	112,616	11,262	(11,262)
Total liabilities	94,242,961	4,143,860	(4,143,860)
Net currency gap:	19,810,340	36,053	(36,053)

As presented in note 4.3.1 the Bank is predominantly exposed to the EUR compared to all other foreign currency and would be most significantly affected by fluctuations in the euro exchange rate. At December 31, 2022, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 141,934 thousand lower (2021: Denar 36,053 thousand higher). Conversely, if the Denar had strengthened 10% against the EUR (and all currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 141,934 thousand higher (2021: Denar 36,053 thousand lower).

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

			In thousands of Denars December 31, 2022
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and balances with the central bank at amortized cost	22,469,444	280,156	(280,156)
Financial assets through profit and loss	2,021	-	-
Investment securities at fair value through other comprehensive income	690,361	11,956	(11,956)
Investment securities at amortized cost	9,677,727	191,293	(191,293)
Placement with, and loans to banks at amortized cost	297,437	5,769	(5,769)
Loans to customers at amortized cost	86,707,636	1,721,374	(1,721,374)
Other financial receivables	1,545,813	-	-
Total assets	121,390,439	2,210,548	2,210,548
LIABILITIES			
Deposits from banks	2,902,315	57,995	(57,995)
Deposits from customers	94,393,757	1,883,907	(1,883,907)
Loans payable	1,930,696	38,614	(38,614)
Other financial liabilities	1,241,525	-	-
Lease liability	156,323	3,126	(3,126)
Total liabilities	100,624,616	1,983,642	(1,983,642)
Net interest gap:	20,765,823	226,906	(226,906

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates) (Continued)

In thousands of Denars
December 31, 2021

	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and balances with the central bank at amortized cost	20,867,795	181,584	(181,584)
Financial assets through profit and loss	1,999	-	-
Investment securities at fair value through other comprehensive income	2,146,529	41,172	(41,172)
Investment securities at amortized cost	10,131,180	200,435	(200,435)
Placement with, and loans to banks at amortized cost	278,118	5,385	(5,385)
Loans to customers at amortized cost	79,096,640	1,567,952	(1,567,952)
Other financial receivables	1,531,040	-	-
Total assets	114,053,301	1,996,528	(1,996,528)
LIABILITIES			
Deposits from banks	1,425,336	(28,507)	28,507
Deposits from customers	89,673,431	(1,786,513)	1,786,513
Loans payable	1,686,298	(33,725)	33,725
Other financial liabilities	1,345,280	-	-
Lease liability	112,616	(2,252)	2,252
Total liabilities	94,242,961	(1,850,997)	1,850,997
Net interest gap:	19,810,340	145,531	(145,531)

As a part of interest rate risk management, the Group analyzes the sensitivity of the balance sheet items. The sensitivity analysis is performed taking into account interest bearing assets and liabilities. Hence, it was tested what would happen, if interest rates decreased/increased by 200 b.p.

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2022, profit for the year would have been Denar 226,906 thousand (2021: 145,531 Denar thousand higher) higher. Conversely, if the interest rates had been 200 b.p lower with all other variables held constant, profit for the year would have been Denar 226,906 thousand (2021: Denar 145,531 thousand lower) lower. Such an effect arises due to higher sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

4. FINANCIAL INSTRUMENTS (Continued)

4.8 Environmental and Social Risks

Acknowledging the importance and potential impact of environmental and social risks, the Group is committed to financing investments that promote environmentally sound and sustainable development and applies a set of environmental performance standards in accordance with the Corporate Credit Policy.

For the purpose of managing the environmental and social risk, in the internal procedures, the Group has adopted an integrated approach of environmental assessment, risk management and monitoring. For financing sub-projects in accordance with EBRD agreement the Group has incorporated environmental and social risks within its Environmental and Social Management System framework which integrates environmental and social risk management into the business operations of the Group. In order to comply with the requirements of the EBRD agreement, the banks has assigned appropriate management and staff resources for the implementation of environmental and social due diligence and monitoring procedures. The Group assesses and manages environmental and social risks and impacts arising from financing sub-projects in accordance with EBRD agreement, with support from team of experts provided by EBRD. The environmental and social risk assessment and monitoring mechanism includes:

- Screening of all clients/sub-projects against the EBRD's Environmental and Social Exclusion List and FI Referral List;

- Categorizing the environmental and social risk of proposed sub-projects (low/medium/high) in accordance with EBRD's Environmental and Social Risk Categorization List for FIs;

The Group is increasingly dedicated to promote improvement of social and environmental awareness of its employees.

5. SEGMENT REPORTING

The Group manages its business through the following business segments:

Retail banking

Retail banking includes all individual customers to whom the Group, through extended network of branches, offers various types of loan, deposit as well as wide range of other traditional services and products.

Corporate banking

Corporate includes lending to all large, medium-sized and small companies. The Group offers its corporate customers a wide range of products and services, deposit accounts, loans, foreign exchange and trade service activities.

Investment banking

Investment banking includes safekeeping and administration of financial instruments for clients, including custodianship and related services and own portfolio management bonds investment portfolio (available for sale and held to maturity)

Other

This segment includes all other insignificant operating activities.

Unallocated

The segment unallocated include accrued revenue from activities that cannot be readily mapped into a particular business line such as commissions, income derived from insurance or income from extraordinary or non-regular items.

Interest and fees revenues are reported on a net basis according to the regular reporting to the chief operating decision maker (Board of directors) for the purpose of allocating resources to the segments and assessing their performance. Segment reporting is based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated financial statements.

5.1 Operating segments

In thousands of Denars
Year ended December 31, 2022

	Retail banking	**Corporate banking**	**Investment banking**	**Other**	**Unallocated**	**Total**
Net interest income	3,141,775	762,814	162,605	-	-	4,067,194
Net fee and commission income	543,662	352,868	2,108	-	-	898,638
Net trading income	-	-	26	-	-	26
Other operating income	283	203,140	25,687	9,149	2,206	240,465
Total income	3,685,720	1,318,822	190,426	9,149	2,206	5,206,323
Profit before tax	1,528,258	709,308	197,282	9,149	2,204	2,446,201
Income tax expense						(235,692)
Net profit for the year						2,210,509
Total assets	53,825,592	58,322,669	10,402,337	1,341,538	-	123,892,136
Total liabilities	70,421,216	30,277,913	2,124	-	99,031	100,800,284
Impairment of financial assets, net	(567,214)	(246,785)	6,856	-	-	(807,143)
Impairment of non-financial assets	-	(809)	-	-	-	(809)
Depreciation and amortization	(130,464)	(49,527)	-	-	(2)	(179,993)
Property and equipment purchases	(172,147)	(82,220)	-	-	(2,569)	(256,936)
Other expenses	(1,459,784)	(312,393)	-	-	-	(1,772,177)

5. SEGMENT REPORTING (Continued)

5.1 Operating segments (Continued)

In thousands of Denars
Year ended December 31, 2021

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	2,962,343	616,183	157,651	-	-	3,736,177
Net fee and commission income	509,618	319,822	2,050	-	-	831,490
Net trading income	-	-	(696)	-	-	(696)
Other operating income	136,757	(3,810)	1,670	23,041	3,994	161,652
Total income	3,608,718	932,195	160,675	23,041	3,994	4,728,623
Profit before tax	1,697,341	247,462	160,229	23,041	3,994	2,132,067
Income tax expense						(221,245)
Net profit for the year						1,910,822
Total assets	50,605,694	51,677,117	12,299,666	819,129	-	115,401,606
Total liabilities	66,872,411	27,524,474	2,100	-	120,886	94,519,871
Impairment of financial assets, net	(650,710)	(148,243)	(446)	-	-	(799,399)
Impairment of non-financial assets	-	-	-	-	-	-
Depreciation and amortization	(123,372)	(47,407)	-	-	-	(170,779)
Property and equipment purchases	(88,214)	(42,133)	-	-	(1,316)	(131,663)
Other expenses	(1,137,295)	(489,083)	-	-	-	(1,626,378)

The Group is disclosing information about revenue only from external customers for Group's products and services.

5.2 Geographical areas

In thousands of Denars
December 31,2022

	RNM	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unalo-cated	Total
Total income, net	3,919,820	441,244	6,842	836,211	2,206	5,206,323
Total assets	100,296,008	8,106,889	125,713	15,363,526	-	123,892,136

In thousands of Denars
December 31,2021

	RNM	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unalo-cated	Total
Total income, net	4,391,719	203,540	1,050	128,320	3,994	4,728,623
Total assets	109,255,690	3,757,588	19,384	2,368,944	-	115,401,606

6. INTEREST INCOME AND EXPENSE

Interest income and expense analyzed by segment and category of financial instruments is as follows:

In thousands of Denars
Year ended December 31,

	Retail banking 2022	Corporate banking 2022	Investment banking 2022	Retail banking 2021	Corporate banking 2021	Investment banking 2021
Interest income calculated using the effective interest method:						
Cash and cash equivalents at amortized cost	-	-	4,346	-	-	(2,487)
Placement with, and loans to banks at amortized cost	-	64,042	-	-	3,075	-
Loans to customers at amortized cost	3,279,452	756,503	-	3,169,248	647,563	-
Investment securities	-	-	158,259	-	-	160,138
Other financial receivables	-	2,862	-	-	2,428	-
Total	**3,279,452**	**823,407**	**162,605**	**3,169,248**	**653,066**	**157,651**
Interest expense:						
Deposits from banks and financial institutions	-	810	-	-	-	-
Deposits from customers	137,677	46,820	-	206,905	34,446	-
Loans payable	-	7,252	-	-	323	-
Other liabilities	-	5,711	-	-	2,114	-
Total	**137,677**	**60,593**	**-**	**206,905**	**36,883**	**-**
Net interest income	**3,141,775**	**762,814**	**162,605**	**2,962,343**	**616,183**	**157,651**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense is analyzed by segment and financial activity as follows:

					In thousands of Denars Year ended December 31,	
	Retail banking 2022	**Corporate banking 2022**	**Investment banking 2022**	**Retail banking 2021**	**Corporate banking 2021**	**Investment banking 2021**
Income:						
Loans provided	58,185	20,720	-	64,070	19,298	-
Domestic payment operations	24,768	249,645	-	26,189	252,571	-
Foreign payment operations	81,666	150,978	-	83,694	135,685	-
Letters of credit and guaranties	-	48,694	-	-	46,403	-
Brokerage	-	-	3,238	-	-	3,297
Assets administering	-	-	374	-	-	398
Credit cards	640,143	-	-	582,137	-	-
Consumer credit	18,041	-	-	22,808	-	-
Deposits	5,534	-	-	2,792	-	-
Safe box	10,381	-	-	9,878	-	-
Third party collection	-	2,631	-	-	2,637	-
Maintenance fees for transaction accounts	127,773	-	-	110,168	-	-
Selling fees on insurance policies	62,007	-	-	54,587	-	-
Other	11,110	5,416	-	17,428	5,104	96
Total	**1,039,608**	**478,084**	**3,612**	**973,751**	**461,698**	**3,791**
Expense:						
Domestic payment operations	-	78,626	-	-	101,770	-
Foreign payment operations	-	34,870	-	-	31,633	-
Letters of credit and guaranties	-	517	-	-	-	-
Brokerage	-	-	-	-	487	-
Credit cards	495,926	-	-	464,094	-	-
Other	20	11,203	1,504	39	7,986	1,741
Total	**495,946**	**125,216**	**1,504**	**464,133**	**141,876**	**1,741**
Net fee and commission income	**543,662**	**352,868**	**2,108**	**509,618**	**319,822**	**2,050**

8. TRADING GAINS LESS LOSSES

	In thousands of Denars Year ended December 31, 2022	2021
Financial assets through profit and loss:		
Net gain on sales and fair valuation of equity securities	26	(696)
	26	(696)

9. FOREIGN EXEXCHANGE TRANSACTION GAINS LESS LOSSES

	In thousands of Denars Year ended December 31, 2022	2021
Realized exchange gains, net	179,881	136,119
Unrealized exchange losses, net	(22,349)	(26,041)
	157,532	110,078

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31, 2022	2021
Gain on sale of property and equipment and foreclosed assets	33,004	15,126
Court claims collections	9,166	7,504
Early withdrawal of deposits and operations with non-residents	5,583	17,564
Dividend from equity securities designated at FVTOCI	1,675	831
Rental income	1,391	1,391
Income from mediation at mortgage insurance	50	64
Income from collected damage from insurance companies	44	261
Reversal of accrued liabilities	23,957	-
Other	8,063	8,833
	82,933	51,574

11. Credit loss allowance and other impairment charges

	In thousands of Denars Year ended December 31, 2022	2021
Credit loss allowance for assets carried at amortized cost	(807,436)	(795,729)
Credit loss allowance for debt securities at fair value through other comprehensive income	293	(3,670)
Impairment loss on non-financial assets	(809)	-
	(807,952)	(799,399)

Impairment/Reversal of impairment loss on financial assets, net

In thousands of Denars

	December 31,2022			December 31, 2021		
	Charge	**Release**	**Net**	**Charge**	**Release**	**Net**
Cash and balances with the central bank (Note 16)	276	-	276	-	(21)	(21)
Placement with, and loans to banks (Note 20)	841	(545)	296	484	(203)	281
Loans to customers (Note 21)	1,878,774	(1,062,889)	815,885	1,860,553	(1,067,124)	793,429
Other assets (Note 22)	6,596	(7,868)	(1,272)	4,889	(3,153)	1,736
Securities measured at FVTOCI (Note 18)	3,522	(3,815)	(293)	-	(3,670)	(3,670)
Securities measured at amortized cost (Note 19)	77	(3,929)	(3,852)	4,503	(3,058)	1,445
Off-balance sheet items (Note 30)	5,273	(9,170)	(3,897)	9,265	(3,066)	6,199
	1,895,359	(1,088,216)	807,143	1,879,694	(1,080,295)	799,399

The accrued Interest income on impaired financial assets has been assessed by the Group as was not material for the year ended 31 December 2022 and 31 December 2021.

Impairment loss on non-financial asset

	In thousands of Denars Year ended December 31, 2022	2021
Assets acquired through foreclosure procedures (Note 22a)	809	-
	809	-

12. PERSONNEL EXPENSES

	In thousands of Denars Year ended December 31, 2022	2021
Wages and salaries	517,861	493,861
Social security cost	253,640	239,896
Other staff costs	181,121	154,038
Pension costs based on defined benefit plans, net	1,726	2,147
	954,348	889,942
Average number of employees during the period	985	984
Number of permanent employees at the end of the year	979	983

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars Year ended December 31, 2022	2021
Depreciation of property and equipment (Note 25)	76,308	69,671
Amortization of intangible assets (Note 24)	53,596	53,139
Depreciation of investment property (Note 23)	562	562
Depreciation of RoU Assets (Note 25)	49,527	47,407
	179,993	170,779

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31, 2022	2021
Insurance premiums for deposits	166,674	164,048
Materials	162,069	77,262
Administrative and marketing costs	122,527	111,600
Other service costs	112,842	117,397
Telecommunication and postage costs	66,941	66,699
Service fee (Legal fees, audit fees)	58,724	66,545
Maintenance and other related expenses	56,921	52,859
Collection costs	37,389	39,829
Insurance premiums for property and employees	13,124	11,118
Expense for Variable lease payments not in Lease Liability	8,032	11,384
Travel expenses	4,638	2,132
Other taxes and contributions	3,388	4,155
Other expenses	2,512	8,885
Court claims	1,351	1,973
Operating expense relating to Short-term & low value leases	697	550
	817,829	736,436

15. INCOME TAX EXPENSE

The major components of income taxes in the statement of comprehensive income are as follows:

	In thousands of Denars Year ended December 31, 2022	2021
Current income tax expense	257,537	276,980
Deferred income tax expense	(21,845)	(55,735)
	235,692	221,245

The total charge for the year can be reconciled to the accounting profit as follows:

	In thousands of Denars Year ended December 31, 2022	2021
Profit before tax	2,446,201	2,132,067
Income tax at the statutory income tax rate of 10%	244,620	213,207
Tax on expenses not allowed for tax purposes	10,655	12,196
Reinvested profit	(14,652)	(8,016)
Tax income/(expense) attributable to other effects	(4,931)	3,858
At effective rate of 9.64% (2021: 10.38%)	235,692	221,245

In accordance with the Income Tax Law which is in appliance for the fiscal 2022 and 2021, basis for taxation represents the realized gross profit (difference between the total income and expenditures) increased by certain costs that are not subject to taxation, or decreased by certain income, investments and similar which are not subject to taxation.

15.1 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Recognized deferred income tax (assets)/liabilities are attributable to the following items

In thousands of Denars

	31 December 2022			31 December 2021		
	Deferred tax assets	**Deferred tax liabilities**	**Net basis**	**Deferred tax assets**	**Deferred tax liabilities**	**Net basis**
Placement with, and loans to banks	-	-	-	-	-	-
Loans and advances to customers	-	80,016	80,016	-	105,622	105,622
Foreclosed collateral	-	17,275	17,275	-	15,118	15,118
Provisions - Off-balance sheet items	-	3,618	3,618	-	2,399	2,399
Investment securities	-	(1,880)	(1,880)	-	(2,265)	(2,265)
Total recognized deferred tax assets / liabilities	**-**	**99,029**	**99,029**	**-**	**120,874**	**120,874**

Movement in temporary differences during the year are as follows:

In thousands of Denars

	31 December 2022			31 December 2021		
	1 January	**Recognised in income**	**31 December**	**1 January**	**Recognised in income**	**31 December**
Placement with, and loans to banks	-	-	-	96	(96)	-
Loans and advances to customers	105,622	(25,606)	80,016	157,457	(51,835)	105,622
Foreclosed collateral	15,118	2,157	17,275	18,850	(3,732)	15,118
Provisions - Off-balance sheet items	2,399	1,219	3,618	2,328	71	2,399
Investment securities	(2,265)	385	(1,880)	(2,122)	(143)	(2,265)
	120,874	**(21,845)**	**99,029**	**176,609**	**(55,735)**	**120,874**

The temporary differences relate to different carrying amount of the above presented items in accordance with statutory requirements.

16. CASH AND BALANCES WITH THE CENTRAL BANK

	In thousands of Denars December 31, 2022	December 31, 2021
Cash on hand	1,544,900	1,830,600
Accounts and deposits with NBRNM, except mandatory reserves in foreign currency	8,307,294	6,171,463
Accounts and deposits with foreign banks	1,709,163	4,581,122
Accounts and deposits with domestic banks	18	-
Treasury	1,836,186	1,838,661
Time deposits up to three months	3,833,348	2,629,101
Other short-term highly liquid assets	1,812	326
Less: ECL allowance	(680)	(404)
Included in Statement of Cash Flows	17,232,041	17,050,869
Mandatory reserves in foreign currency	4,836,078	3,515,576
Restricted deposits	401,325	301,350
	22,469,444	20,867,795

Accounts and deposits with NBRNM, except mandatory reserves in foreign currency in the amount of Denar 8,307,294 thousand (2021: Denar 6,171,463 thousand) represent mandatory reserves in Denars. These reserves are non-interest bearing.

Treasury bills which can be traded on the secondary market in the amount of Denar 1,836,186 thousand (2021: Denar 1,838,661 thousand) represent bills issued by the Central Bank with a maturity of 28 - 35 days and interest rate of 4.75.% p.a. (2021: 1.25.% p.a.).

Mandatory reserves in foreign currency represent non-interest-bearing mandatory deposit with NBRNM amounting to Denar 4,836,078 thousand (2021: Denar 3,515,576 thousand) calculated as an average amount of deposits in foreign currencies during the last calendar month.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Equity securities issued by banks	2,021	1,999
	2,021	1,999

The Group trades with the trading securities in order to generate profit from the short-term fluctuations in their stock price. The Group is not able to exert significant influence over the bank in which it holds equity securities due to the insignificant percentage it has in the ordinary share capital in these entities.

18. INVESTMENT SECURITIES MEASURED AT FVTOCI

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Government bills	597,888	2,061,721
Equity securities issues by other entities	92,584	85,212
	690,472	2,146,933
Less: ECL allowance	(111)	(404)
	690,361	2,146,529

The movement of investment securities is as follows:

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Balance at the beginning of the year	2,146,529	2,292,859
Additions within the period	606,201	2,056,037
Maturities within the period	(2,066,484)	(2,207,241)
Gains / (losses) from changes in fair value	3,822	1,204
Impairment charge net	293	3,670
Balance at the end of the year	690,361	2,146,529

The movement in the ECL allowance is as follows:

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Balance at the beginning of the year	404	4,074
Addition for the year (Note 11)	3,522	-
Release for the year (Note 11)	(3,815)	(3,670)
Balance at the end of the year	111	404

The ECL movement in the table above relates to Stage 1.

19. INVESTMENT SECURITIES MEASURED AT AMORTIZED COST

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Debt securities		
Government bonds	9,694,955	10,153,835
Corporate bonds	1,575	-
	9,696,530	10,153,835
Less: ECL	(18,803)	(22,655)
	9,677,727	10,131,180

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Balance at the beginning of the year	10,131,180	12,399,581
Additions within the period	1,275	3,037,385
Maturities within the period	(349,323)	(5,211,986)
Amortization of premiums / discounts	(90,970)	(77,810)
Foreign exchange differences	(18,287)	(14,545)
Impairment charge	3,852	(1,445)
Balance at the end of the year	9,677,727	10,131,180

The movement in the ECL allowance is as follows:

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Balance at the beginning of the year	22,655	21,210
Addition for the year (Note 11)	77	4,503
Release (Note 11)	(3,929)	(3,058)
Balance at the end of the year	18,803	22,655

The ECL movement in the table above relates to Stage 1.

Debt securities issued by the Government in the amount of Denar 9,676,160 thousand, net (2021: Denar 10,131,180 thousand), include the amount of Denar 4,550,358 thousand, net, (2021: Denar 4,905,430 thousand) which relate to continued coupon government bonds issued by the state of RNM with maturity from January 2023 till April 2028 and fixed interest rate from 0.35% p.a. to 1.63% p.a. (2021: from 0.35% p.a. to 1.63% p.a.) being repayable in annual coupons. Starting from 2019 Eurobond issued by the Ministry of Finance of the RNM is part of investment securities, in amount of Denar 5,125,802 thousand, (2021: Denar 5,225,750) with maturity from July 2023 till March 2028 and fixed interest rate from 1.63% p.a. to 5.63% p.a. (2021: from 1.63% p.a. to 5.63% p.a). Starting from 2022, Debt securities also include corporate bond issued by Osiguritelen Broker, in amount of Denar 1.567 thousand (2021: Denar nill).

20. PLACEMENTS WITH, AND LOANS TO BANKS

In thousands of Denars

	Year ended December 31, 2022 Short-term	Year ended December 31, 2022 Long-term	Year ended December 31, 2021 Short-term	Year ended December 31, 2021 Long-term
Loans to foreign banks	19,057	-	18,637	-
Other placements due from foreign banks	-	288,451	-	269,256
	19,057	288,451	18,637	269,256
Less: ECL allowance	(10,071)	-	(9,775)	-
	8,986	288,451	8,862	269,256
	297,437		278,118	

The movement in the ECL allowance is as follows:

In thousands of Denars

	December 31, 2022	December 31, 2021
Balance at the beginning of the year	9,775	9,494
Charge for the year (Note 11)	841	484
Release (Note 11)	(545)	(203)
Balance at the end of the year	10,071	9,775

Part of the loans to foreign banks amounting to Denar 19,057 thousand (2021: Denar 18,637 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 26). The ECL movement above relates to Stage 3.

Other placement due from foreign banks relate to restricted accounts of Denar 288,451 thousand (2021: Denar 269,256 thousand) which represent deposits held with United Overseas Bank Limited Singapore and HSBC Bank PLC, London, Great Britain as a collateral for the transactions performed with VISA and MASTER payment cards. These funds are not available for the Group’s daily operations.

21. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

In thousands of Denars

	Year ended December 31, 2022		Year ended December 31, 2021	
	Short-term	**Long-term**	**Short-term**	**Long-term**
Non-financial entities				
principal amount	15,056,229	18,876,225	12,480,936	17,140,613
interest receivable	66,614	-	50,438	-
State				
principal amount	-	-	-	-
interest receivable	-	-	-	-
Not-for-profit organizations				
principal amount	-	15,167	21	21,616
interest receivable	6	-	19	-
Households				
principal amount:				
- housing loans	180,766	15,972,682	235,361	13,326,699
- consumer loans	1,994,416	32,180,128	1,946,321	31,032,962
- auto loans	37	16,498	11,427	19,648
- credit cards	266,219	4,143,943	295,959	4,412,751
- other loans	165,429	1,346,223	177,919	1,390,567
interest receivable	406,418	-	581,560	-
Non-residents, except banks				
principal amount	943	4,455	51	1,181
interest receivable	2	-	8	-
Current maturity	12,365,229	(12,365,229)	11,505,794	(11,505,794)
	30,502,308	60,190,092	27,285,814	55,840,243
Total gross loans	90,692,400		83,126,057	
Provision for impairment	(3,984,764)		(4,029,417)	
	86,707,636		79,096,640	

The ECL allowance presented represents total provision and relate to both, short-term and long-term loans to customers.

21. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars December 31, 2022	December 31, 2021
Agriculture and forestry	679,205	513,828
Mining and quarrying	481,467	278,707
Manufacturing	10,920,673	9,482,393
Electricity, gas, steam and air conditioning supply	2,356,933	1,911,042
Water supply; sewerage, waste management and remediation activities	31,964	9,175
Construction	3,485,123	2,944,274
Wholesale and retail trade; repair of motor vehicles and motorcycles	8,912,799	7,550,345
Transportation and storage	822,534	997,738
Accommodation and food service activities	751,760	825,085
Information and communication	332,592	312,987
Financial and insurance activities	208,818	78,094
Real estate activities	879,165	437,886
Professional, scientific and technical activities	603,118	470,236
Administrative and support service activities	1,034,651	1,136,810
Public administration and defense; compulsory social security	27,639	29,973
Human health and social work activities	483,032	485,416
Arts, entertainment and recreation	4,094	3,509
Other service activities	29,730	14,224
Individuals	54,662,339	51,614,918
	86,707,636	79,096,640

c) Analysis of loans by type of security

	In thousands of Denars December 31, 2022	December 31, 2021
Cash and cash equivalents or restricted accounts held in Bank	1,651,295	1,265,775
Government guarantees	295,135	462,203
Bank guarantees	270,411	248,143
Corporate guarantees	2,032,334	768,371
Property	40,095,927	34,736,147
Equipment and other movable assets	2,291,068	2,366,118
Other securities	1,682,118	1,598,416
Non-secured	38,389,348	37,651,467
	86,707,636	79,096,640

22a. OTHER ASSET

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Assets acquired through foreclosure procedure	569,060	567,635
Advances for PPE	678,392	-
Advanced interest paid	262,614	-
Stock of material, plastic cards, coins and numismatic collection	22,191	22,682
Prepaid expenses	13,426	5,456
Advances to suppliers	30,181	1,235
	1,575,864	597,008
Less: Allowance for impairment	(285,866)	(290,731)
	1,289,998	306,277

Assets acquired through foreclosure procedure

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Foreclosed collateral		
Land	17,723	19,087
Buildings	521,872	510,915
Other	29,465	37,633
	569,060	567,635
Less: Allowance for impairment	(285,866)	(290,731)
	283,194	276,904

The movement in the allowance for impairment in Assets acquired through foreclosure procedure is as follows:

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Balance at the beginning of the year	290,731	311,902
Charge for the year (Note 11)	809	-
Disposals	(5,674)	(21,171)
Balance at the end of the year	285,866	290,731

22b. Other Receivables

	In thousands of Denars December 31, 2022	December 31, 2021
State pension receivable	1,453,597	1,305,179
Receivables upon payments on credit cards	100,881	166,806
Trade receivables from contracts with customers	1,835	69,087
Receivables for commission and fees	5,601	4,498
Treasury shortage and claims from employees for shortages	4,284	4,031
Other receivables	24,848	36,558
	1,591,046	1,586,159
Less: Allowance for impairment	(45,233)	(55,119)
	1,545,813	1,531,040

State pension receivable in amount of Denar 1,453,597 thousand refers to pension for December 2022 prepaid from bank's funds (2021: Denar 1,305,179 thousand), paid by the Pension and disability insurance fund of North Macedonia on 5[td] of January 2023.

The movement in the ECL allowance in other receivables is as follows:

Total Loans	31.12.2022 Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	31.12.2021 Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
Balance at beginning of period	(187)	(7,128)	(47,804)	(55,119)	(141)	(9,322)	(56,162)	(65,625)
Transfer from Stage 1 to Stage 2	1	(1)	-	-	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	-	-	-	-
Transfer from Stage 2 to Stage 1	(301)	301	-	-	(270)	270	-	-
Transfer from Stage 2 to Stage 3	-	957	(957)	-	-	3,016	(3,016)	-
Transfer from Stage 3 to Stage 2	-	(906)	906	-	-	(209)	209	-
New financial assets originated or purchased	(555)	-	-	(555)	-	(1,598)	-	(1,598)
Write-offs	-	-	8,614	8,614	-	-	12,242	12,242
Other movements including repayments	-	4,967	(3,140)	1,827	224	715	(1,077)	(138)
Ending balance	(1,042)	(1,810)	(42,381)	(45,233)	(187)	(7,128)	(47,804)	(55,119)

23. INVESTMENT PROPERTY

	In thousands of Denars
Cost	
Balance at January 1, 2021	78,619
Additions	-
Transfer from assets acquired through foreclosure procedure	-
Disposals	-
Balance at December 31, 2021	78,619
Balance at January 1, 2022	78,619
Additions	-
Disposals	-
Balance at December 31, 2022	78,619
Accumulated depreciation	
Balance at January 1, 2021	(36,345)
Charge for the year	562
Disposals	-
Balance at December 31, 2021	(35,783)
Balance at January 1, 2022	(35,783)
Charge for the year	562
Disposals	-
Balance at December 31, 2022	(35,221)
Impairment	
Balance at January 1, 2021	105,364
Charge for the year (Note 11)	-
Balance at December 31, 2021	105,364
Balance at January 1, 2022	105,364
Charge for the year (Note 11)	-
Balance at December 31, 2022	105,364
Carrying amount	
Balance at December 31, 2021	9,038
Balance at December 31, 2022	8,476

As of December 31, 2022, the fair value of the investment property corresponds to the carrying amount presented in these consolidated financial statements.

24. INTANGIBLE ASSETS

In thousands of Denars

	Software	Other intangibles	Total
Cost			
Balance at January 1, 2021	537,608	182,762	720,370
Additions	26,372	1,439	27,811
Transfers	8,758	(8,683)	75
Disposals	-	(3,081)	(3,081)
Balance at December 31, 2021	572,738	172,437	745,175
Balance at January 1, 2022	572,738	172,437	745,175
Additions	70,702	10,304	81,006
Transfers	-	-	-
Disposals	-	(4,474)	(4,474)
Balance at December 31, 2022	643,440	178,267	821,707
Accumulated amortization			
Balance at January 1, 2021	418,695	150,888	569,583
Transfers	-	8	8
Charge for the year	42,606	10,533	53,139
Disposal	-	(2,984)	(2,984)
Balance at December 31, 2021	461,301	158,445	619,746
Balance at January 1, 2022	461,301	158,445	619,746
Transfers	-	-	-
Charge for the year	45,267	8,329	53,596
Disposal	-	(4,059)	(4,059)
Balance at December 31, 2022	506,568	162,715	669,283
Carrying amount			
Balance at December 31, 2021	111,437	13,992	125,429
Balance at December 31, 2022	136,872	15,552	152,424

25. PROPERTY AND EQUIPMENT

In thousands of Denars

	Buildings	Furniture and equipment	Construction in progress	RoU assets Buildings	RoU assets Vehicles	Total
Cost						
Balance at January 1, 2021	1,269,437	1,010,593	6,403	167,451	21,617	2,475,501
Additions	36,681	23,415	9,545	39,546	22,476	131,663
Transfer	(75)	-	-		-	(75)
Disposals	-	(27)	-			(27)
Balance at December 31, 2021	1,306,043	1,033,981	15,948	206,997	44,093	2,607,062
Balance at January 1, 2022	1,306,043	1,033,981	15,948	206,997	44,093	2,607,062
Additions	19,054	142,687	1,719	93,509	-	256,969
Transfer	-	-	-	-	-	-
Disposals	(10,487)	(21,473)	-	-	(33)	(31,993)
Balance at December 31, 2022	1,314,610	1,155,195	17,667	300,506	44,060	2,832,038
Accumulated depreciation						
Balance at January 1, 2021	602,993	883,013	-	76,239	15,986	1,578,231
Transfer	(8)	-	-			(8)
Charge for the year	31,398	38,273	-	39,903	7,504	117,078
Disposals	-	(27)	-	-	-	(27)
Balance at December 31, 2021	634,383	921,259	-	116,142	23,490	1,695,274
Balance at January 1, 2022	634,383	921,259	-	116,142	23,490	1,695,274
Transfer	-	-	-	-	-	-
Charge for the year	32,140	44,168	-	42,382	7,145	125,835
Disposals	(7,656)	(21,441)	-	-	-	(29,097)
Balance at December 31, 2022	658,867	943,986	-	158,524	30,635	1,792,012
Impairment						
Balance at January 1, 2021	4,227	-	-	-	-	4,227
Charge for the year (Note 11)	-	-	-	-	-	-
Balance at December 31, 2021	4,227	-	-	-	-	4,227
Balance at January 1, 2022	4,227	-	-	-	-	4,227
Charge for the year (Note 11)	-	-	-	-	-	-
Balance at December 31, 2022	4,227	-	-	-	-	4,227
Carrying amount						
Balance at December 31, 2021	667,433	112,722	15,948	90,855	20,603	907,561
Balance at December 31, 2022	651,516	211,209	17,667	141,982	13,425	1,035,799

The Group’s buildings as of December 31, 2022 include property with a net carrying amount of Denar 2,330 thousand (2021: Denar 2,481 thousand), for which the Group does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2022 and 2021 the Group’s property and equipment are free of any pledges and mortgages.

The carrying amount of RoU assets vehicles as of December 31,2022 is Denar 13,452 thousand (2021: Denar 20,671 thousand). The amount of additions and repayments are insignificant. Remaining part of the balance referes to RoU assest – buildings.

26. DEPOSITS FROM BANKS

In thousands of Denars

	December 31, 2022		December 31, 2021	
	Up to one year	Over one Year	Up to one year	Over one year
Current accounts				
domestic banks	16,813	-	10,275	-
foreign banks	755	-	387	-
	17,568	-	10,662	-
Time deposits				
foreign banks	2,863,303	-	1,395,662	-
	2,863,303	-	1,395,662	-
Restricted deposits				
foreign banks	18,884	-	19,005	-
	18,884	-	19,005	-
Interest payable on deposits				
foreign banks	2,560	-	7	-
	2,560	-	7	-
Total deposits from banks	2,902,315		1,425,336	

The restricted deposits held with foreign banks amounting to Denar 18,884 thousand (2021: Denar 19,005 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 20).

27. DEPOSITS FROM CUSTOMERS

In thousands of Denars

	December 31, 2022		December 31, 2021	
	Up to one year	**Over one year**	**Up to one year**	**Over one year**
Non-financial entities				
Current accounts	19,245,521	-	17,855,354	-
Sight deposits	95,370	-	138,837	-
Time deposits	953,908	275,763	822,413	835,163
Restricted deposits	566,899	585,526	333,025	511,193
Other deposits	104,216	-	10,261	-
Interest payable on deposits	8,363	-	12,372	-
	20,974,277	861,289	19,172,262	1,346,356
State				
Current accounts	182,153	-	160,341	-
Time deposits	-	-	20,000	-
Restricted deposits	27	703	35	650
Interest payable on deposits	39	-	67	-
	182,219	703	180,443	650
Not-for-profit organizations				
Current accounts	698,864	-	644,528	-
Sight deposits	-	-	-	-
Time deposits	106,109	13,800	117,672	16,099
Restricted deposits	1,682	4,353	2,149	1,042
Interest payable on deposits	198	-	209	-
	806,853	18,153	764,558	17,141
Financial institutions, except banks				
Current accounts	67,872	-	71,280	-
Sight deposits	-	-	-	-
Time deposits	145,379	550,167	192,000	776,814
Restricted deposits	1,400	1,291	7,457	1,672
Interest payable on deposits	3,858	-	15,124	-
	218,509	551,458	285,861	778,486
Households				
Current accounts	37,620,958	-	34,569,904	-
Sight deposits	61,466	-	132,965	-
Time deposits	13,653,452	15,904,264	13,800,954	15,144,634
Restricted deposits	1,730,174	423,171	1,649,648	491,736
Interest payable on deposits	32,850	-	47,855	-
	53,098,900	16,327,435	50,201,326	15,636,370
Non-residents, except banks				
Current accounts	1,034,737	-	988,771	-
Sight deposits	1,068	-	765	-
Time deposits	131,672	108,835	111,472	142,317
Restricted deposits	77,091	455	46,018	455
Interest payable on deposits	103	-	180	-
	1,244,671	109,290	1,147,206	142,772
Current maturity	7,426,100	(7,426,100)	9,756,013	(9,756,013)
	83,951,529	10,442,228	81,507,669	8,165,762
Total deposits from customers	94,393,757		89,673,431	

28. LOANS PAYABLE

In thousands of Denars

	December 31, 2022		December 31, 2021	
	Up to one year	Over one year	Up to one year	Over one year
Domestic sources:				
DBNM				
- Matures in 2024 and interest rate is equal to 1.0% p.a. annually (2021: 1% p.a.)	464	203	28	12,908
- Matures in 2032 and interest rate is equal to 0% p.a. (2021 0% p.a.)	441,337	1,488,692	-	1,673,362
	441,801	1,488,895	28	1,686,270
Current maturity of long-term loans	441,800	(441,800)	156,512	(156,512)
	883,601	1,047,095	156,540	1,529,758
Total loans payable	**1,930,696**		**1,686,298**	

FINANCIAL LIABILITIES RECONCILIATION

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows:

Movement of loans payable: **In thousands of Denars**

	December 31, 2022	December 31, 2021
Balance at the beginning of the year	1,686,298	529,540
Cash flows	244,398	1,156,802
Foreign exchange adjustments	(26)	-
Other non-cash movements	26	(44)
Balance at the end of the year	1,930,696	1,686,298

The movement in the lease liability is as follows:

In thousands of Denars

	December 31, 2022	December 31, 2021
Balance at beginning of the year	112,616	98,196
Additions	89,472	54,952
Repayments	(45,765)	(40,532)
Balance at the end of the year	156,323	112,616

29. OTHER LIABILITIES

	In thousands of Denars	
	December 31, 2022	**December 31, 2021**
Trade payables	2,767	4,892
Fee and commissions liabilities	183	150
Accrued expenses	151,219	137,676
Deferred income from previous year	223,045	190,036
Other		
Preferred cumulative shares	90,978	90,978
Liabilities for dividend on preferred shares	2,133	2,110
Disputed VISA cards transactions	534	1,858
Unallocated inflows upon deposits and other inflows	592,419	771,792
Obligations to merchants for outstanding payments on credit cards	9,872	13,515
Overpaid fees of credit cards	34,239	33,110
Commitments for closing current accounts – bankruptcy	21,352	16,480
Obligations for settlement with VISA	482	1,721
Lease liability	156,323	112,616
Premature repayment of loans and other liabilities	112,302	80,962
	1,397,848	**1,457,896**

The Bank has issued 227,444 non-redeemable cumulative preference shares with a nominal value of Denar 400.

The preference shares give preferential rights for dividends and do not have voting rights and participation in equity in the event of a liquidation of the Bank.

As of December 31, 2022, the Bank allocated an amount of Denar 1,137 thousand as a dividend to the holders of these shares for the 2022 (2021: Denar 1,285 thousand).

30. PROVISIONS

In thousands of Denars

	Off-balance sheet items	**Litigation**	**Employees benefits**	**Total**
Balance at beginning of the year 2022	28,318	10,693	44,430	83,441
Additions	5,273	554	4,020	9,847
Used	-	-	(541)	(541)
Release	(9,170)	(7,474)	(356)	(17,000)
Balance at the end of the year 2022	24,421	3,773	47,553	75,747

In thousands of Denars

	Off-balance sheet items	**Litigation**	**Employees benefits**	**Total**
Balance at beginning of the year 2021	22,119	10,391	41,833	74,343
Additions	9,265	601	3,886	13,752
Used	-	(52)	(370)	(422)
Release	(3,066)	(247)	(919)	(4,232)
Balance at the end of the year 2021	28,318	10,693	44,430	83,441

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

The principal actuarial assumptions used were as follows:

	2022	**2021**
Interest rate	3.10%	2.20%
Average salary increase	5.00%	4.00%
Inflation rate	3.00%	2.00%

Mortality rate:
By the study of mortality rates in the past years, we have established the representation of the expected rate of mortality in the country. We used a mortality table which is a reasonable approximation of long-term mortality rate in the country.

31. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2022 and 2021 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2022 and 2021 officially announced and accepted by the Central Securities Depository of the RNM is as follows:

	December 31, 2022		December 31, 2021	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
National Bank of Greece	94.64%	3,323,094	94.64%	3,323,094
Others	5.36%	188,148	5.36%	188,148
	100%	3,511,242	100%	3,511,242

b) Revaluation reserves

Revaluation reserves include unrealized gains and losses arising from changes in the fair value of Investment securities measured at FVTOCI.

Components of other comprehensive income

	In thousands of Denars	
	December 31, 2022	December 31, 2021
Reserves-Other comprehensive income-Items that will be reclassified to P&L		
Revaluation reserve - FVTOCI Debt securities	(5,826)	240
Reserves-Other comprehensive income-Items that will not be reclassified to P&L		
Gains less losses on investments in equity securities at fair value through other comprehensive income	7,372	3,966
Service & interest income/(cost) related to defined benefits obligation	(1,938)	(819)
Other comprehensive income	(392)	3,387
Less: Income tax relating to components of other comprehensive Income	-	-
Other comprehensive income for the year, net of tax	(392)	3,387

c) Statutory reserve

In accordance with the local regulations, the Group is required to set aside 5 percent of its net profit for the previous year in a statutory reserve until the level of the reserve reaches 1/10 of the court-registered share capital. Until the minimum required level is reached, the statutory reserve could be used only for loss recovery. When the statutory reserve exceeds the minimum level, after recovery of all losses, it can be used for distribution of dividends, based on a decision of the Shareholder's Assembly, but only if, for the current year, it has not reached the minimum for distribution as prescribed by the Law on Trade Companies or by the Bank's Statute.

d) Special fund

Special fund represents a fund set up based on the internal Bank's policy for various purposes broadly classified as restrictive.

32. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data in the earnings per share computations:

	December 31, 2022	December 31, 2021
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	2,210,509	1,910,822
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	126.6	109.4
Diluted earnings per share (in Denars)	126.6	109.4

33. RELATED PARTY TRANSACTIONS

Related parties include major shareholders, affiliates and jointly controlled entities, control/management with the Group, or whose activities the Group has an ability to control. Key management personnel include members of Management and Supervisory Board. All transactions with related parties arise in the normal course of business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

The significant related party balances and transactions are presented as follows:

Statement of financial position

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2022				
Assets				
Current accounts	9,337	-	-	9,337
Loans	675,948	855	54,798	731,601
Investments in subsidiaries			15,000	15,000
Other assets	20	80	487	587
	685,305	935	70,285	756,525
Liabilities				
Deposits	2,461,840	49,048	436,199	2,947,087
Other liabilities	51,725	-	-	51,725
	2,513,565	49,048	436,199	2,998,812
December 31, 2021				
Assets				
Current accounts	9,372	-	-	9,372
Loans	-	944	2,824	3,768
Other assets	-	-	-	-
	9,372	944	2,824	13,140
Liabilities				
Deposits	1,232,543	55,090	173,990	1,461,623
Other liabilities	55,289	1	-	55,290
	1,287,832	55,091	173,990	1,516,913

33. RELATED PARTY TRANSACTIONS (Continued)

Statement of comprehensive income

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2022				
Income				
Interest income	2,953	38	363	3,354
Fee and commission income	81	12	18	111
Other income	-	77	467	544
	3,034	127	848	4,009
Expenses				
Interest expense	10,805	460	2,645	13,910
Fee and commission expense	1,091	-	-	1,091
Other expenses	104,503	31,300	16	135,819
	116,399	31,760	2,661	150,820
December 31, 2021				
Income				
Interest income	-	55	119	174
Fee and commission income	-	13	11	24
Other income	-	1	3	4
	-	69	133	202
Expenses				
Interest expense	111	468	63	642
Fee and commission expense	1,311	-	-	1,311
Other expenses	101,586	33,738	1,553	136,877
	103,008	34,206	1,616	138,830

National Bank of Greece, Athens represents the parent and the ultimate parent company of the Bank. Other related party transactions relate mostly to NBG Cairo branch, fellow subsidiaries of the NBG Group, entity under common control, transactions with Stopanska Lizing Dooel and related parties to key management personnel.

The most significant transactions with related parties include the following: loans granted to NBG (parent company) in amount of USD 9 milion with interest rate of 4.30% and AUD 4 milion with interest rate of 2.00% , with maturity up to 1 month; deposits from parent company in amount of EUR 40 milion with maturity up to 3 months within interest rate range 1.95% - 2.10%, and deposits from other related party (NBG Cairo) in amount of EUR 7 milion with maturity up to 1 month within interest rate range 2.20% - 2.50%.

The total compensation and other transactions with key management personnel as follows:

In thousands of Denars

	December 31, 2022	December 31, 2021
Short-term compensation and benefits	31,276	33,716
	31,276	33,716

Short-term compensation and benefits relates in particular to salaries and social security contributions. The Bank entered into banking transactions with key management personnel in the normal course of business.

34. COMMITMENTS AND CONTINGENCIES

a) Off-balance sheet items

	In thousands of Denars December 31, 2022	December 31, 2021
Payment guarantees:		
in Denars	1,112,733	1,099,582
in foreign currency	329,784	252,403
in Denars with foreign currency clause	20,460	18,926
Performance guarantees:		
in Denars	792,671	597,443
in foreign currency	616,677	34,905
in Denars with foreign currency clause	1,248,523	1,036,358
Letters of credit in foreign currency	117,708	810,449
Cash covered letter of credit	103,922	9,727
Cash covered letter of guarantees	359,514	340,709
Unused current account overdrafts	11,574,783	7,964,050
Credit cards commitments	4,804,289	5,403,380
Other	13,347	21,657
	21,094,411	17,589,589
Less: provision for off-balance sheet items (Note 30)	(24,421)	(28,318)
	21,069,990	17,561,271

The fair value of off balance sheet items approximates their carrying amount.

In relation to the credit quality of the off balance sheet items, a breakdown by range of probability of default is presented below:

In thousands of Denars

As at 31 December 2022	Stage 1	Stage 2	Credit Impaired	Total
12-month PD				
0.01% - 2%	19,078,867	944,607	-	20,023,474
2.01% - 10%	280,215	45,427	-	325,642
10.01% - 20%	668	676	-	1,344
Over 20.01%	-	170	743,781	743,951
	19,359,750	990,880	743,781	21,094,411

In thousands of Denars

As at 31 December 2021	Stage 1	Stage 2	Credit Impaired	Total
12-month PD				
0.01% - 2%	14,895,766	2,306,604	-	17,202,370
2.01% - 10%	125,591	211,269	-	336,860
10.01% - 20%	-	13,687	-	13,687
Over 20.01%	-	24,481	12,191	36,672
	15,021,357	2,556,041	12,191	17,589,589

34. COMMITMENTS AND CONTINGENCIES (Continued)

a) Off-balance sheet items (Continued)

An analysis of off-balance sheet items based on Stage at 31.12.2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Off-balance sheet exposures	19,359,750	990,880	743,781	21,094,411
Provision (Note 30)	(13,277)	(8,072)	(3,072)	(24,421)
Off-balance sheet items	19,346,473	982,808	740,709	21,069,990

An analysis of off-balance sheet items based on Stage at 31.12.2021 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Off-balance sheet exposures	15,021,357	2,556,041	12,191	17,589,589
Provision (Note 30)	(13,489)	(11,886)	(2,943)	(28,318)
Off-balance sheet items	15,007,868	2,544,155	9,248	17,561,271

b) Managed funds

The Group administrates assets on a fee basis on behalf of customers. Such managed funds are not Group's assets and are not recognized in the statement of financial position.

In thousands of Denars

	December 31, 2022			**December 31, 2021**		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Loans in Denars	262,560	262,508	52	264,792	264,740	52
Loans in foreign currency	92,345	92,345	-	117,967	117,967	-
Other receivables in Denars	1,418,805	1,418,805	-	1,337,121	1,337,121	-
Other receivables in foreign currency	455,187	455,187	-	425,214	425,214	-
Custodian accounts	35,287	35,287	-	19,943	19,943	-
	2,264,184	2,264,132	52	2,165,037	2,164,985	52

The Group is not exposed to any credit risk in respect of the above placements, as it does not guarantee placements.

34. COMMITMENTS AND CONTINGENCIES (Continued)

c) Litigations

The Group is involved in litigation from its regular operations. The provision of litigation cases against the Group as of December 31, 2022, for which additional analyses were made on the basis of which the Group 's management believes that the final outcome of these disputes will be resolved to the detriment of the Group for that losses could result in respect of these disputes amounted to Denar 3,772 thousand (2021: Denar 10,693 thousand). This amount includes the penalty interests, and other court expenses as well. Accordingly, during 2022, the Group made additional provisions for litigations in the amount of Denar 554 thousand (2021: Denar 601 thousand). See note 30.

In reference to the three court proceedings initiated during 2019 by the holders of preferred shares against Stopanska Banka – AD Skopje, in each of the court cases the lawsuits have been rejected as legally groundless. In that respect, two court cases have been finalized in favor of the Bank in all court instances and in regard to the third case which still ongoing at the Supreme Court, the first and second instance courts have ruled in favor of the Bank. In that respect, the Supreme Court deciding upon an extraordinary legal remedy submitted by a plaintiff-holder of preferred priority shares in one of the court proceedings, finally ruled in favor of the Bank stating that the issued preferred priority shares are preferred priority cumulative and do not give any right to their holders to participate in the distribution and payment of profit, as well as that the decisions on the distribution of profit and method of calculation of dividends for the preferred priority shares were correctly adopted by the Shareholders' Assembly in accordance with the prescribed legal procedure and the rights given to their holders by types of shares. Therefore, it remains the same Supreme Court formally to reach a decision upon the extraordinary legal remedy filed by the plaintiffs-holders of preferred priority shares in the third case.

All the facts, evidence and passed court decisions confirm Bank's position that it acts fully in compliance with the laws, its Statute and the Decisions on issuance of shares and that the preferred priority shares are only cumulative without voting right, as registered in the Central Securities Depositary. The Bank does not expect any material impact on the consolidated financial statements and its operations.

d) Lease commitments

The Group as lessor

Operating leases relate to the investment property owned by the Group, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. The expiration of the lease period ranges up to one year. Rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounting to Denar 1,391 thousand (2021: Denar 1,391 thousand).

The Group as lessee

The Group applied IFRS 16 to contracts that were identified as leases and presented as Group's Right of Use Assets and Lease liability. The lease liabilities were discounted at the Group s incremental borrowing rate as of 1 January 2019.

The Group has elected to take a recognition exemption for short-term leases and leases of low-value items, for which lease payments are recognized as operating expenses on a straight-line basis over the lease term.

35. TAXATION RISK

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

36. EVENTS AFTER THE REPORTING PERIOD

There are no material events after the balance sheet date that would be reported in the consolidated financial statements.

37. EXCHANGE RATES

Official exchange rates used in the translation of the balance sheet items denominated in foreign currencies were as follows:

		In Denars
	2022	**2021**
1 USD	57.6535	54.3736
1 EUR	61.4932	61.6270