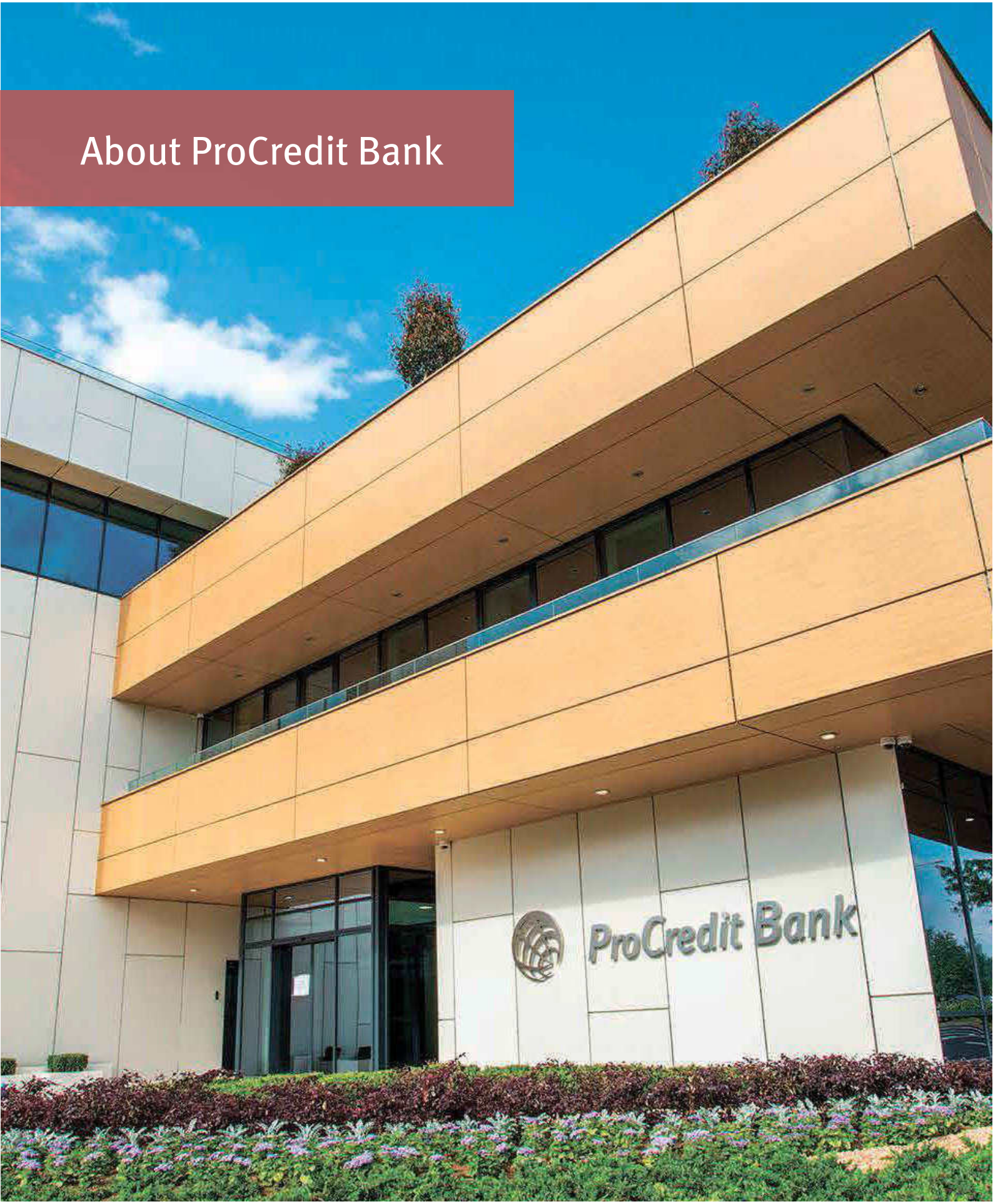
Part of the
ProCredit Group

ProCredit Bank

Annual Report 2021



About ProCredit Bank





Mission statement

ProCredit Bank is a development-oriented commercial Bank. We offer excellent customer service to small and medium enterprises and to private individuals who have the capacity to save and who prefer to do their banking through electronic channels. In our operations, we adhere to a number of core principles: We value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

We focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and online banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility among business clients as well as private individuals.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent service for our clients.

Business ethics

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong corporate values play a key role in this respect. Six essential principles guide the operations of the ProCredit institutions:

Transparency: We provide transparent information to our customers, to the general public and to our employees. For example, we ensure that customers fully understand the terms of the contracts they conclude with us, and we engage in financial education in order to raise public awareness of the dangers of intransparent financial offers.

A culture of open communication: We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions.

Social responsibility and tolerance: We offer our clients sound, well founded advice. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment capacity in order to avoid over-indebtness and to provide apporpritate financial services. In addition, we are commited to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs.

Service orientation: Every client is served in a friendly, competent and courteous manner. Our employees are committed to providing excellent service to all customers, regardless of their background or the size of their business.

High professional standards: Our employees take persona responsibility for the quality of their work and always strive to grow as professionals.

A high degree of personal integrity and commitment: Complete honesty is required of all employees in the ProCredit group at all times, and any breaches of this principle are dealt with swiftly and rigorously.

These values represent the backbone of our corporate culture and are discussed andactively applied in our day-to-day operations. Moreover, they are reflected in the ProCredit Code of Conduct, which transforms the group's ethical principles into practical guidelines for all staff.



Management Board

from left to right:

Stevce Kuzmanovski
Member of the Management Board

Emilija Spirovska
Member of the Management Board

A letter from the Bank's Management

Dear all,

As a development-oriented Bank, dedicated for building long-term relationship with the small and medium enterprises in the country, in 2021, ProCredit Bank reaffirmed its trust as a Business Partner Bank by offering a professional and complete banking service for innovative and production companies, international trade-oriented businesses and investments in energy efficient projects, as well as renewable energy projects. The approach to each client is individual in order to understand the business and development expectations, and for each client and an effective solution is determined individually according to the needs and financial capacities. Customer satisfaction with this individual approach and demonstration of initiative from the Bank, is one of the greatest achievements for us. Exactly in this segment we achieved a 7.25% growth in the loan portfolio.

The quality of the loan portfolio remains one of the most important priorities for the success of ProCredit Bank. An indicator of the success is the non-performing loans rate for 2021 being only 1.48%, which is better than the average of the banking sector for the same period.

In 2021, ProCredit Bank proved once again that it is one step ahead of the others when it comes to following the global trends in the banking sector and implementing the advanced digital trends in the domestic market. Since 2015 we have started with full digitalization and automation of services for private individuals and legal entities. The Bank's clients independently perform banking operations through digital channels or through our Zone 24/7 automated branches for cash transactions.

We can proudly say that the unexpected situation we faced in 2021 did not cause changes in the daily operations of the Bank. Innovative banking channels and highly professional staff are one of the main factors for our success. We invest in improving the quality of our staff and organize specialized training for all employees.

Also, a strong point of ProCredit Bank AD Skopje is that we are part of an international group of banks and are spread in a number of countries in Eastern, Southeastern Europe, South America and Germany, thus offering customers additional quality benefits such as: business-to-business meetings for clients in our network of banks, a system for favorable and fast international payments and the possibility of an international financial limit for companies.

Sincerely,

Emilija Spirovska
Member of the Management Board



Stevce Kuzmanovski
Member of the Management Board



Key points for ProCredit Bank ProCredit

FitchRatings

ProCredit is the only Bank in North Macedonia rated by the international rating agency Fitch Ratings and it has the highest possible rating a company can have in North Macedonia.

SUPERVISED BY BaFin

We work in accordance with the best international banking practices and the regulatory standards in Germany, a banking system proven to be the most stable in Europe. At a consolidated level, ProCredit Banks are under supervision of BaFin - The German Federal Financial Supervisory Authority.

Loan Portfolio

EUR 461 million
Total Loan Portfolio

88% are placed in loans for small and medium enterprises which contribute for the development of the local economy

9% growth of the loan portfolio in comparison with 2020

18% are placed in loans for energy efficient projects and project for environmental protection economy

1.48% are non-performing loans

ProCredit Holding

The sole owner of ProCredit Bank is ProCredit Holding (ProCredit Holding AG & Co. KGaA) which holds a controlling stake in each ProCredit institution. The main functions of ProCredit Holding with regard to banks in the group are to provide equity and debt financing, to indicate the strategic guidelines for development and supervision.

zeitinger INVEST

Zeitinger Invest GmbH - is a limited liability company based in Frankfurt, specialized in consultancy for financial institutions. The company is the leading shareholder and strategic investor in the ProCredit Group.

KFW

KFW - German development Bank, under the supervision of the German Federal Government. Fi-nances investments in developing countries and enjoys highest AAA credit rating by Fitch Ratings

DOEN

DOEN – Dutch Foundation focused on achieving green, socially-inclusive and creative society. DOEN supports inspiring initiatives, by issuing subsidies, providing a loan or equity investments

Other shareholders:

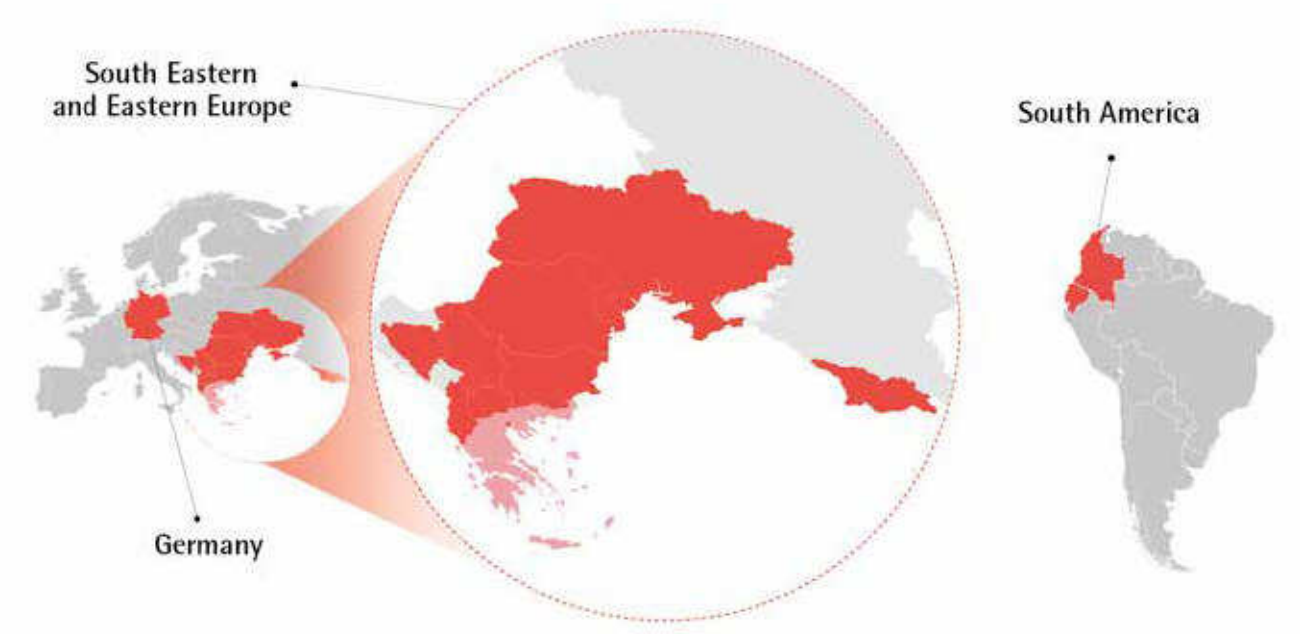
IFC International Finance Corporation

ProCredit STAFF INVEST

TIAA

ProCredit group

The ProCredit group is made up of development-oriented commercial banks operating in South Eastern and Eastern Europe and South America, as well as a Bank in Germany.



Annual Report IFRS 2021

Balance Sheet	EUR'000		MKD'000		Growth
	2021	2020	2021	2020	
Total Assets	642,997	573,771	39,625,984	35,398,242	11.94%
Gross loan portfolio	461,457	424,116	28,438,208	26,165,433	8.69%
Business loans	423,995	395,282	26,129,541	24,386,536	7.15%
Private loans (Housing + Investment loans)	36,529	28,107	2,251,153	1,734,062	29.82%
Other	933	727	57,514	44,835	28.28%
Allowance for impairment of loans	7,275	6,658	448,318	410,734	9.15%
Net Loan portfolio	454,182	417,459	27,989,890	25,754,699	8.68%
Liabilities to customers	424,449	395,332	26,157,537	24,389,624	7.25%
Liabilities to banks and financial institutions(excluding PCH)	143,860	111,419	8,865,656	6,873,888	28.98%
Shareholder equity	51,604	48,581	3,180,182	2,997,170	6.11%
Income Statement					
Operating Income	15,265	13,044	940,763	804,721	16.91%
Operating Expenses	11,972	9,233	737,812	572,539	28.87%
Operating Profit before tax	3,293	3,763	202,951	232,182	-12.59%
Net Profit	3,018	3,397	186,010	209,584	-11.25%
Key ratios					
Cost/income ratio	69.50%	70.78%			
ROE	6.03%	7.24%			
Capital Ratio (IFRS)	19.08%	15.92%			
Nonperforming loans (PAR>90)	1.48%	0.63%			
Operational Statistic					
Number of clients	19,813	18,416			
out of which business clients	3,671	3,630			
Loans Outstanding	9,892	8,399			
Number of deposit accounts	49,710	47,050			
Number of staff	182	184			
Number of branches and Service Centers/Points	2	3			

CORPORATE GOVERNANCE REPORT OF PROCREDIT BANK AD SKOPJE

(as required under the Decision on good Corporate governance rules for Banks
(Official Gazette of the R.M. 24/2018, Official Gazette of Republic of North Macedonia 113/2019)

Introduction

This report is prepared in order to demonstrate the corporate governance conducted within ProCredit Bank AD Skopje for the year ending 31 December 2021 which shows the governing bodies of the Bank, the independence of their members and the overall organizational structure of the Bank which is created in order to prevent conflicts of interest, in accordance to the requirements set in the Banking Law and the Decision on good Corporate governance rules for Banks.

The main purpose of the successful corporate governance is demonstration of standardization of the processes, procedures, and the Bank‘s behavior based on the principles of responsibility, transparency and decentralization and control over the decision making process. In this respect, the report contains description of the managing structure of the Bank and the manner in which these principles are applied in practice in order to provide sound corporate governance management.

1. Shareholders structure of ProCredit Bank

ProCredit Holding AG & Co. KGaA is the sole shareholder of ProCredit Bank AD Skopje with asteak of 100% or owner of 2.957.351 shares with nominal value of 5 EUR per share.
The shareholders of the Bank have established a managing structure within the Bank in accordance to the Banking law and the related bylaws.

2. Information and data on the composition and the functioning of the Supervisory Board, Managing Board and other bank bodies.

2.1. Information on the number and the composition of the bank bodies

As of December 31, 2021 the Supervisory Board of ProCredit bank consists of the following five members:

- Jovanka Joleska Popovska,
- Sandrine Massiani,
- Driss Nor,
- Kaspar Baumann and
- Elena Naumovska.

In 2021, Ms Jovanka Joleska Popovska and Mr Driss Nor were appointed as new members of the Supervisory Board.
Mr Christian Kistner and Mr Jordan Damcevski has resigned of their functions as members of the Supervisory Board of the Bank.
As well during 2021, Mr Stevce Kuzmanovski was re-elected by the Supervisory Board of the Bank as a member of the Managing Board and obtained consent from the National Bank of the Republic of N. Macedonia for the next four years.

As of December 31, 2021 the Managing Board of the Bank consists of the following 2 (two) members:

- Emilija Spirovska – Member of Managing Board
- Stevce Kuzmanovski – Member of Managing Board

All members of the Managing Board are equally responsible for the banking operations and the liabilities of the bank.

Risk Management Committee as of December 31, 2021 consists of the following six members:

- Emilija Spirovska, member of the Managing Board
- Stevce Kuzmanovski, member of the Managing Board
- Ana Stojanovska, extended management – Head of internal services and compliance department
- Kristina Trpezanovska, Head of Risk management unit
- Ivana Doncovska, Head of Credit risk Department
- Valentina Nikovska, Head of Finance department

The members of the Risk Management Committee are elected from among the persons with special rights and responsibilities employed in the Bank and one of the members of the Bank's Managing Board. All members of the Risk Management Committee, in addition to the requirements determined by law, have appropriate experience in the area of finance and banking.

The Audit Committee of the Bank consists of the following five members:

- Sandrine Massiani;
- Jovanka Joleska Popovska;
- Elena Naumovska;
- Jordan Damcevski and
- Krsto Nestorov.

Three of the members of the Audit Committee are elected from among the members of the Supervisory Board, and two members are independent members. In accordance to the requirements of the Banking Law, Krsto Nestorov is a certified auditor.

2.2. Procedure for appointing and dismissing members and their qualifications
The procedure for appointing and dismissing members and their qualifications is based on the relevant criteria and other conditions defined in the Banking Law and the Charter of the Bank.
When appointing the members of the Supervisory Board, the Bank's General Assembly of Shareholders takes great care to ensure that all members of this body have the requisite professional expertise and experience and also exhibit the various personal qualities needed to successfully discharge the responsibilities of a member of the Supervisory Board.

Members of the Managing Board, persons with special rights and responsibilities, or net debtors of the Bank may not be at the same time members of the Supervisory Board.

The members of the Supervisory Board are elected by the General Assembly of Shareholders for a period of four years, with the right of re-election. The Supervisory Board consists of five members out of which two represent independent members of the Supervisory Board.

The General Assembly of Shareholders of the Bank may not appoint the Supervisory Board members without a prior consent of the Governor of the National Bank of the Republic of North Macedonia.

The Supervisory Board of the Bank may not appoint a member of the Managing Board without a prior consent of the Governor of the National Bank of the Republic of North Macedonia.

When appointing the members of the Audit Committee, the Bank's Supervisory Board must ensure that the persons selected meet the following criteria:

- Members must have the requested professional expertise and experience and fully understand the role of the Audit Committee and its sphere of responsibility within the Bank;
- Members must be capable of making independent judgments and assessments and approach their work in an unbiased, objective manner;

- Members must be well acquainted with the Bank's operations and its products and services;
- Members must understand the risks to which the Bank is exposed;
- Members must be acquainted with the Bank's internal control systems and risk management policies;
- Members must have a good knowledge of accounting and auditing.

2.3. The criteria for independence for a member of the Supervisory Board and the Audit Committee

In accordance with the Banking Law, ProCredit Bank strictly complies with the principle of independence in respect of the membership in the managing bodies and decision making process. The term "Independent member" as stipulated by Banking Law and practice within the bank means;

- member that is not employed or does not represent a person with special rights and responsibilities in the bank;
- member that is not a shareholder with qualified holding in the bank or does not represent a shareholder with qualified holding in the bank;
- a member that does not work, or has not been working in an audit company over the last three years which at that time audited the operations of the bank;
- a member that has not got any financial interest or business relation with the bank in an amount exceeding MKD 3,000,000.00 annually, on average, over the last three years.

2.4. Defining of the material interest and business relations with the bank

Members of the Supervisory Board receive payment for the performance of their duties determined with the agreement for their appointment and travel expenses related to the performance of their duties are reimbursed.

2.5. The obligations and the responsibilities of the members of both Supervisory and Managing Board

The obligations and responsibilities of the members of both Supervisory Board and the Managing Board are set forth in detail in the Banking Law and Bank's Charter.

The Supervisory Board supervises the operations of the Managing Board and approves the policies for conducting financial activities and supervises their implementation.

The Supervisory Board also performs the following activities:

- adopts the business policy and development plan of the bank and monitors its implementation;
- prepare draft proposals for amendments to the Charter;
- appoint and dismiss members of the Managing Board of the Bank;

- appoint and dismiss members of the Audit Committee;
- appoint and dismiss members of the Risk Management Committee;
- adopts the financial plan of the Bank;
- organize the Internal Audit Department;
- approve the annual plan of the Internal Audit Department;
- adopts the information security policy;
- adopts the risk management policies of the Bank;
- adopts Conflict of Interests Policy which identifies any possible conflict of interests and stipulates the measures and activities for prevention of the same;
- adopts Remuneration Policy, in compliance with the business policy, the development plan, the financial plan and the Conflict of Interests Policy the Bank;
- adopts and implement Policy on the manner of appointing, monitoring the operation of, and relieving of duty of, the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Managing Board;
- at least once a year performs an assessment of their own work from the aspect of the individual members and collectively and informs the Bank‘s assembly about this;
- review the reports on the activities of the Managing Board of the Bank;
- review the reports of the Audit Committee;
- review the reports of the Risk Management Committee;
- review the reports of the Compliance Department;
- review the reports of the Internal Audit Department;
- approve the annual account and the financial reports of the Bank;
- approve policies applicable within the ProCredit Group and ensures that these policies are appropriate for the Bank and in compliance with the laws of the Republic of North Macedonia and the standards of the National Bank;
- decide on the establishment, relocation, opening and closing of the branches, subsidiaries, related entities and representative offices;
- approve exposures to entities exceeding 20% of the Bank’s own funds, with the exception of exposures based on purchase of securities issued by the National Bank and the Republic of North Macedonia;
- approve transactions with related parties with the Bank in amounts exceeding MKD 6,000,000.00;
- approve the acquisition of equity holdings and the purchase of securities for amounts greater than 5% of the Bank’s own funds, other than the purchase of securities issued by the National Bank of the Republic of North Macedonia;
- decide on the issuance of securities, including bonds, except shares;
- prepare and submit to the General Assembly proposals for the issuance of shares;
- approve the proposal of the Audit Committee for appointment of an audit firm or the recommendation for termination of the agreement with the audit firm and assume responsibility for ensuring that audits are conducted appropriately;
- adopts the internal audit policy and procedures, monitor the procedures to ensure that they are appropriate, and monitor the efficiency of the operations of the Internal Audit Department;
- review the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities

to overcome the identified shortcomings and weaknesses in the Bank's operations;
- approve the annual report on the Bank's operations and submits a written opinion on said report to the Bank's General Assembly of Shareholders;
- review the report of the audit firm and submits a written opinion on said report to the General Assembly of Shareholders;
- adopts the Code of Conduct of the Bank;
- adopts the Code of Corporate Governance which regulates the rules for governance and supervision of the Bank;
- decide on other issues as determined by the law.

The Managing Board of the Bank is responsible for the lawful operation of the Bank.
The Managing Board of the Bank performs the following activities:
- manages the operations of the Bank;
- represents the Bank;
- carries out the decisions of the General Assembly of Shareholders and the Supervisory;
- Board of the Bank, i.e. ensures that they are implemented;
- undertakes initiatives and submits proposals for improvement of the Bank's operations;
- appoints and dismisses persons with special rights and obligations and adopts and implements Policy on the manner of appointment, monitoring the operation of, and the relieving of duty of, the persons with special rights and responsibilities, except the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Managing Board;
- prepares the business policy and development plan of the Bank;
- prepares a financial plan for the Bank;
- implements policies of ProCredit Group and ensures that these policies are appropriate for the Bank and in compliance with the laws of the Republic of North Macedonia and the standards of the National Bank;
- prepares the information security policy of the Bank;
- prepares an annual report on the Bank's operations and submits it to the Supervisory Board;
- decides on the granting and taking out of loans by the Bank, issuance of guarantees and other forms of sureties and the issuance, provision and acceptance of securities in the framework of the Bank's credit balance, in accordance with the law and the decisions of the Assembly of Shareholders and the Supervisory Board;
- implements the internal procedures of the Bank;
- prepares a Code of Conduct for the Bank;
- performs other tasks assigned to it by the Supervisory Board.

The Managing Board is also responsible for:
- establishing the appropriate conditions for the operation of the Bank in accordance with the regulations;
- monitoring and management of the risks that the Bank is exposed to in its operations;
- attaining and maintaining an adequate level of own funds;

- ensuring the smooth functioning of the internal control system in all the areas of the Bank‘s operations;
- ensuring the smooth functioning of the Internal Audit Department of the Bank on an ongoing basis, i.e. ensuring that the Internal Audit Department has the necessary access to documentation and to the employees of the Bank to allow it to implement its activities on an ongoing basis;
- smooth operating of the Compliance Department i.e. ensures that the compliance officer, i.e. the department has access to the documentation and to the employees of the bank for the purpose of uninterrupted conducting of their authorizations;
- keeping the trade and other books and business documentation of the Bank and preparing financial and other reports in accordance with the accounting regulations and accounting standards;
- ensuring timely and accurate financial reporting;
- ensuring the timeliness and accuracy of the reports submitted to the National Bank of the Republic of North Macedonia in accordance with the law and the regulations pursuant to the law; and
- implementing any measures imposed on the Bank by the Governor.

2.6. The functions of the members of the Supervisory Board in which they are engaged outside the Bank

The members of the Supervisory Board take care to ensure that any activities in which they are engaged outside the Bank, regardless of whether or not they receive compensation for these activities, do not adversely affect their ability to perform their duties and do not damage the Bank’s public image.

The functions of the members of the Supervisory Board of ProCredit Bank outside are the following:

- Jovanka Joleska Popovska - ProCredit Reporting DOOEL – consultant, analyst
- Sandrine Massiani - ProCredit Holding AG & Co. KGaA – Member of the Managing Board and Manager at ProCredit Reporting dooel import-export, Skopje, North Macedonia
- Driss Nor – DOOEN foundation – executive director
- Kaspar Baumann - Clarmondial AG at Weinrebenstrasse 20, 8708 Männedorf, Switzerland- manager
- Elena Naumovska – Associate Professor at the University “St.Cyril and Methodius”, Faculty of Economics -Skopje

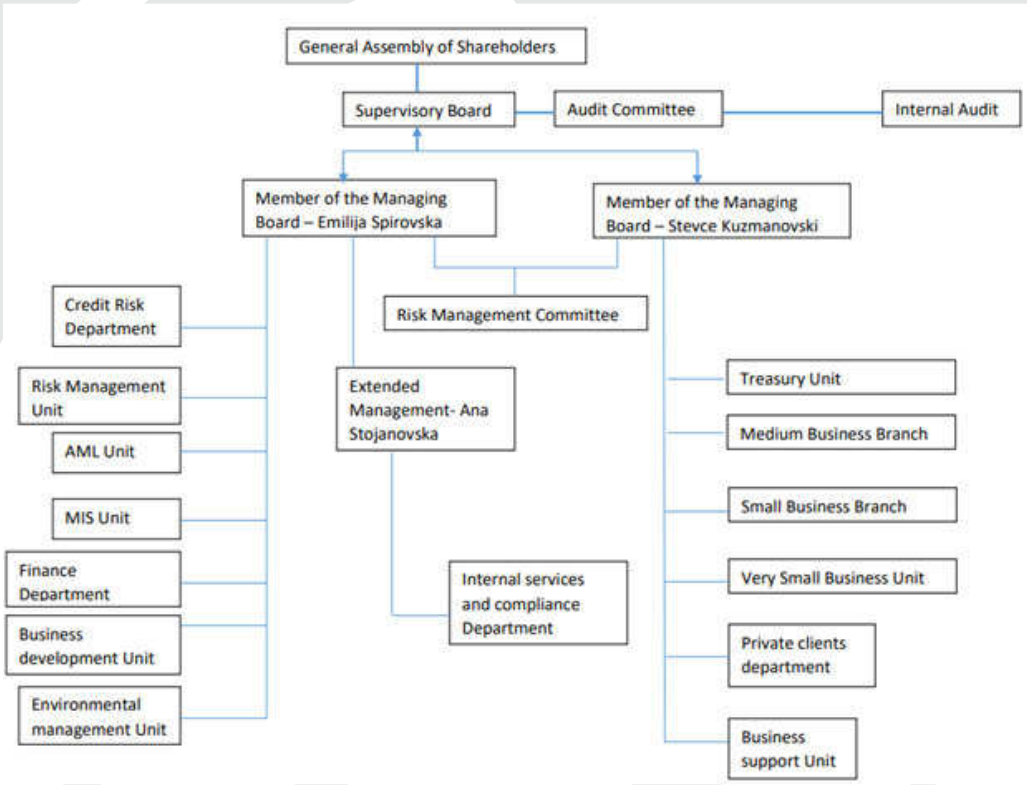
3. Information and data on the organizational structure of the Bank

Most of the departments and units which carry out the Bank’s activities are organised in departments that are directly supervised by the Managing Board. The organizational structure has been established so that it complies with the overall strategy of the Bank and in order to meet the objectives and goals in line with the Bank’s business policy.

With the established organizational structure of the bank, the responsibilities and lines of responsibility, cooperation and exchange of information are precisely defined, where there is a clear segregation between the persons and the organizational units responsible for risk management of the persons and organizational units responsible

The changes in the organizational structure are presented on the regular meetings of the Supervisory Board by the members of the Managing Board. Each change in the structure is illustrated as a quality measure affecting the efficiency and the effectiveness of the Bank's operations. Based on the presentation and assessment of the affect over the banking operations, the Supervisory Board approves the organizational structure.

As of December 31, 2021, the organizational chart is as follows:



During 2021 amendments and a consolidated text of the Remuneration Policy of ProCredit Bank AD Skopje were adopted, with the aim of achieving full compliance with the provisions of the Decision on good corporate governance rules for banks of NBRSM (Official Gazette no. 24/2018 and Official Gazette of republic of North Macedonia no. 113/2019). The Remuneration Policy contains clear and transparent rules and criteria for determining the total amount of compensation and, in particular, rules and criteria for clear determination of compensation according to the salary structure of the Bank.

In principle, according to the Bank's pay structure, the employees, including also the members of the Managing Board, the persons with special rights and responsibilities and the other Bank employees receive fixed compensation (compensation in the form of salary). The Remuneration Policy also defines the principles and the circumstances when compensation may be variable, which depends on the long-term success in accomplishing the tasks and duties, at the same time taking into consideration the specific risk level. The independent members of the Supervisory Board are entitled to remuneration for their participation and work at the sessions, the amount of which is stipulated in the agreement for their appointment.

4. Information and data on the bank's conflict of interests prevention policy
ProCredit Bank endeavour to prevent conflicts of interest from arising and to ensure that internal information is not used in an inappropriate manner.

ProCredit Bank implements the following measures for avoiding conflict of interests:
- avoiding any situation that would lead to conflict of interest or occurrence of a conflict of interest;
- it is forbidden to undertake activities within the regular operation of the bank from which the employee may personally have additional financial interest;
- it is prohibited from participating in Bank matters that involve the financial interests of employees, family, partner, or an organization of which employee serve as an officer, director, trustee, or employee;
- it is not allowed to accept gifts, meals, favours, services, entertainment, or anything else of monetary value from any person or organization that seeks action by the Bank, does business with or seeks to do business with the Bank, or may be affected by your work at ProCredit Bank;
- employee do not participate in the hiring process of new staff if the candidate is a relative or friend of such employee.

The employees of the Bank should report any situations in which a conflict of interest might occur. A written statement shall be submitted regarding any conflicts of interest prior to the meeting of the relevant body at which the transaction in question is to be dealt with in order to permit a thorough review of the situation before a decision is taken, an agreement is concluded or a business activity is initiated. The written statement shall be submitted to both the Supervisory Board and the Managing Board of the Bank, and it shall describe the precise nature of the conflict between the personal interests of the respective member of the Managing Board and the interests of the Bank and explain how it originated.
If a member of the Supervisory Board finds that he/she is in a situation involving a conflict of interest, or can anticipate that he/she will become involved in a situation of this type at some point in the future, he/she shall report this information to the chairperson of the Supervisory Board in a timely manner.

5. Information related to enforcement of the Code of Corporate Governance
The Code of Corporate Governance (the Code) has been duly enforced in each aspect defined by it. In this manner, during 2021 all procedures defined with the Code, specifically convening the General Assembly of shareholders, appointment of members of Supervisory Board were conducted as prescribed by the Code and the regulations related to these procedures.

In this manner, all criteria as set in the Code and the regulations were met.
Additionally, the co-operation between the Supervisory Board and the Managing Board was as set in the Code; especially in defining the Bank's business objectives; defining the strategies for ensuring sound risk management; detirmining the Bank's risk profile; establishment of policies to enable the Bank to achieve its goals and the objectives which are defined with regard to its risk profile; holding regular meetings (at least once per quarter); circulating proposals for measures to improve the Bank's corporate governance etc.

Also, the Managing Board has provided the Supervisory Board with all reports and has fulfilled the requirements from the Supervisory Board.

The Internal Audit Department and the compliance function of the Bank's operate with the regulations defined in the Code and the legal framework.

PROCREDIT BANK AD SKOPJE

Financial Statements

for the year ended 31 December 2021

With the Independent auditor's report thereon

Content

	Pages
Independent auditor's report	
Financial statements	
Statement of profit or loss	1
Statement of other comprehensive income	1
Statement of financial position (balance sheet)	2
Statement of changes in equity	3
Cash flow statement	4
Notes to the financial statements	5-72

PROCREDIT BANK AD SKOPJE

Independent auditor's report

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11 Oktomvri no. 86/1-1
1000 Skopje
Republic of Macedonia

To
The shareholder of
ProCredit Bank AD Skopje

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

BDO d.o.o. Skopje, a limited liability company incorporated in the Republic of Macedonia, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO member firms.

To
The shareholder of
ProCredit Bank AD Skopje

INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Skopje, 13 April 2022

Dragan Dimitrov, Certified auditor
Manager

PROCREDIT BANK AD SKOPJE

Audited Financial Statements

Statement of profit or loss

in '000 MKD	Note	01.01.-31.12.2021	01.01.-31.12.2020
Interest income (effective interest method)		1,013,550	945,846
Interest expenses		(339,688)	(343,681)
Net interest income	(25)	**673,862**	**602,165**
Fee and commission income		318,719	282,882
Fee and commission expenses		(142,060)	(104,126)
Net fee and commission income	(26)	**176,660**	**178,756**
Result from foreign exchange transactions	(27)	120,993	87,655
Net other operating income (expense)	(28)	(30,752)	(63,855)
Operating income*		**940,763**	**804,721**
Personnel expenses	(29)	(201,288)	(186,858)
Administrative expenses	(30)	(452,641)	(382,750)
Loss allowance*	(31)	(83,883)	(2,931)
Profit before tax		**202,951**	**232,182**
Income tax expenses	(39)	(16,940)	(22,598)
Profit of the period		**186,010**	**209,584**

**Previous year presentation and figures have been adapted to the current disclosure structure (see note 3)*

Statement of Other Comprehensive Income

in '000 MKD	Note	01.01.-31.12.2021	01.01.-31.12.2020
Profit of the period		**186,010**	**209,584**
Items that are or may be reclassified to profit or loss		**(2,998)**	**(122)**
Change in revaluation reserve		(2,998)	(122)
Change in value not recognised in profit or loss		(3,067)	60
Change in loss allowance (recognised in profit or loss)		69	(182)
Other comprehensive income of the period, net of tax		**(2,998)**	**(122)**
Total comprehensive income of the period		**183,012**	**209,462**

Statement of financial position

in '000 MKD

Assets	Note	31.12.2021	31.12.2020
Cash	(33)	441,245	418,938
Central bank balances	(33)	6,565,414	5,513,512
Loans and advances to banks	(34)	2,913,378	2,366,344
Investment securities	(35)	754,427	381,137
Loans and advances to customers	(36)	27,989,890	25,754,699
Property, plant and equipment	(37)	685,858	720,676
Intangible assets	(38)	3,393	3,446
Current tax assets	(39)	8,742	-
Other assets	(40)	263,639	239,491
Total assets		**39,625,984**	**35,398,243**
Liabilities			
Liabilities to banks*	(42)	8,865,656	6,873,889
Liabilities to customers	(43)	26,157,537	24,389,624
Other liabilities	(45)	69,750	62,306
Provisions	(46)	23,677	29,418
Current tax liabilities	(39)	-	3,423
Deferred tax liabilities	(39)	15,026	10,056
Subordinated debt	(44)	1,314,155	1,032,358
Total liabilities		**36,445,801**	**31,401,073**
Equity			
Subscribed capital	(49)	908,713	908,713
Capital reserve (share premium)		74,633	74,633
Legal reserve	(49)	90,871	90,871
Retained earnings		2,108,311	1,922,301
Revaluation reserve		(2,347)	651
Total equity		**3,180,182**	**2,997,169**
Total equity and liabilities		**39,625,983**	**35,398,242**

**Previous year presentation and figures have been adapted to the current disclosure structure (see note 3)*

The Bank's financial statements for the financial year ended 31 December 2021 were approved for issue by the Supervisory Board on April 8, 2022 and signed on their behalf by:

Emilija Spirovska
Member of Managing Board

Stevce Kuzmanovski
Member of Managing Board

The notes to the financial statements form an integral part of these financial statements

Statement of Changes in Equity

in '000 MKD	Note	Subscribed capital	Share premium	Legal reserve	Retained earnings	Revaluation reserve	Total Equity
Balance as of 1 January 2021		**908,713**	**74,633**	**90,871**	**1,922,301**	**651**	**2,997,169**
Change in fair value reserve		-	-	-	-	(2,998)	(2,998)
Other comprehensive income of the period, net of tax		**-**	**-**	**-**	**-**	**(2,998)**	**(2,998)**
Profit of the period		-	-	-	186,010	-	186,010
Total comprehensive income of the period		-	-	-	186,010	(2,998)	183,012
Distributed dividends		-	-	-	-	-	-
Balance as of 31 December 2021		**908,713**	**74,633**	**90,871**	**2,108,312**	**(2,347)**	**3,180,182**
Balance as of 1 January 2020		**908,713**	**74,633**	**90,871**	**1,712,717**	**773**	**2,787,707**
Change in revaluation reserve		-	-	-	-	(122)	(122)
Other comprehensive income of the period, net of tax		**-**	**-**	**-**	**-**	**(122)**	**(122)**
Profit of the period		-	-	-	209,584		209,584
Total comprehensive income of the period		-	-	-	209,584	(122)	209,462
Distributed dividends		-	-	-	-	-	-
Balance as of 31 December 2020		**908,713**	**74,633**	**90,871**	**1,922,301**	**651**	**2,997,169**

Cash Flow Statement

in '000 MKD	Note	01.01.-31.12.2021	01.01.-31.12.2020
Profit of the period		186,010	209,584
Income tax expenses (continuing operations)		16,940	22,598
Profit before tax (including discontinued operations)		**202,950**	**232,182**
Adjustments for:			
Depreciation and amortization of property, plant and equipment and intangible assets		55,066	57,946
Gains / losses from disposal of fixed assets		(1,645)	(2,933)
Net Interest Income		(673,862)	(602,165)
Net Impairment losses of loans and advances		83,883	2,931
Subtotal		(333,608)	(312,039)
Net change in assets and liabilities from operating activities:			
Loans and advances to banks		(437,248)	(341,703)
Loans and advances to customers		(2,324,140)	(2,927,072)
Other assets from operating activities		(32,890)	(40,006)
Liabilities to banks (deposits only)		13,591	311,877
Liabilities to customers		1,769,824	3,453,534
Other liabilities from operating activities		14,962	31,114
Interest received		1,018,616	942,322
Interest paid		(362,635)	(312,504)
Income tax paid		(23,768)	(15,655)
Cash flow from operating activities		**(697,296)**	**789,868**
Proceeds from disposal of fixed assets		11,661	3,578
Payments for purchase of fixed assets		(30,211)	(21,183)
Investment securities acquired		(733,303)	(381,247)
Proceeds from sale of investment secirities		360,013	439,680
Cash flow from investing activities		**(391,840)**	**40,828**
Dividends paid		-	-
Proceeds from subordinated loans		277,322	401,011
Proceeds from borrowings		3,699,436	1,769,653
Payments of borrowings		(1,695,748)	(1,105,717)
Lease payments		(7,878)	(10,053)
Cash flow from financing activities		**2,273,132**	**1,054,894**
Cash and cash equivalents at end of previous year		**6,244,563**	**4,358,973**
Cash flow from operating activities		(697,296)	783,525
Cash flow from investing activities		(391,840)	40,828
Cash flow from financing activities		2,273,132	1,061,237
Cash and cash equivalents at end of period	**(33)**	**7,428,558**	**6,244,563**

Notes to the Financial Statements

A. Basis of Preparation

1) Reporting entity and compliance with International Financial Reporting Standards
2) Compliance with local law
3) Comparative information
4) Use of judgements and estimates
5) Accounting developments

B. Summary of Significant Accounting Policies

6) Measurement basis
7) Financial assets
8) Foreign currency translation
9) Cash and cash equivalents
10) Loans and advances to banks
11) Credit loss allowance for losses on financial assets
12) Intangible assets
13) Property, plant and equipment
14) Impairment of non-financial assets
15) Leases
16) Income tax
17) Financial liabilities
18) Provisions
19) Post-employment benefits and other employee benefits
20) Subordinated debt
21) Equity capital
22) Financial guarantee contracts
23) Interest income and expense
24) Fee and commission income and expenses

C. Notes to the Income Statement

25) Net interest income
26) Net fee and commission income
27) Result from foreign exchange transactions
28) Net other operating income/expense
29) Personnel expenses
30) Administrative expenses
31) Loss allowance
32) Earnings per share

D. Notes to the Balance Sheet

33) Cash and Central Bank balances
34) Loans and advances to Banks
35) Investment securities
36) Loans and advances to customers
37) Property, plant and equipment

38) Intangible assets
39) Income taxes
40) Other assets
41) Pledged and transferred assets
42) Liabilities to Banks
43) Liabilities to customers
44) Subordinated debt
45) Other liabilities
46) Provisions
47) Maturities of assets and liabilites
48) Fair value of financial instruments
49) Equity

E. Risk Management

50) Capital management
51) Management of individual risks
- Credit risk
- Counterparty and issuer risk
- Foreign currency risk
- Interest rate risk
- Liquidity risk

F. Additional Notes

52) Contingent liabilities and commitments
53) Related party transactions
54) Key management compensation
55) Significant post-balance sheet events
56) Exchange rates
57) Address and general information

Notes to the Financial Statements

Basis of Preparation

1) Reporting entity and compliance with International Financial Reporting Standards

Reporting entity

ProCredit Bank AD Skopje ("the Bank") focuses on financing Small and Medium-sized Enterprises (SMEs) and on direct banking activities for private clients. Through its business activities the Bank aim to provide a sustainable return on investment for the shareholders while making a contribution to economic, social and ecological development. The parent company of the Bank is ProCredit Holding AG & Co. KGaA ("ProCredit Holding"), domiciled at Rohmerplatz 33-37, 60486 Frankfurt am Main, Germany (Commercial Register Frankfurt, Section B No. 91858).

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

Compliance with International Financial Reporting Standards

These financial statements represent individual financial statements of the Bank in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The Bank does not prepare consolidated financial statements.

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the recent financial crisis on future operations of the Bank.

Functional and presentation currency

All amounts are presented in thousands of Macedonian denars (MKD), unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit.

2) Compliance with local law

ProCredit Bank AD Skopje is a joint stock company. For supervisory purposes, ProCredit Bank AD qualifies as a Bank according to the Macedonian Banking Law and is therefore supervised by the National Bank of the Republic of North Macedonia (NBRNM).

The Supervisory Board approved the Bank's financial statements for the fiscal year 2021 for issue on April 8, 2022.

3) Comparative information

In order to ensure consistency to the current year, the comparative information may be modified accordingly. The changes made are not material and are intended to improve comparability, except those described in detail in the notes, if any.

3a) Change in classification

The following material changes in presentation were made in the current year:

- The loss allowance is reported after the personnel and administrative expenses items. Similarly, we adjusted the subtotal for operating income accordingly.
- "Liabilities to other financial institutions and development banks" which were reported separately in the previous year, are reported within the item "Liabilities to banks". The previous year's figures have been aligned to the current disclosure structure.
- Negative interest from assets is reported as part of interest expense.
  The previous year's figures have been aligned to the current disclosure structure.

4) Use of judgements and estimates

The Bank's financial reporting and its financial results are influenced by accounting policies, assumptions, estimates, and management judgement, which necessarily have to be made in the course of preparing the financial statements.

All estimates and assumptions necessary for compliance with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

Accounting policies and the management's judgement with respect to certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following positions:

(a) Impairment of financial assets

By applying IFRS 9, loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all financial instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with different stages. The Bank reports the balance sheet items "Central bank balances", "Loans and advances to banks", "Investment securities", "Loans and advances to customers" and "Other assets" net (including loss allowances). Further information on the bank's accounting policy on loan loss provisioning can be found in Note (10) and Note (51).

5) Accounting developments

a) Standards, amendments and interpretations that are already effective

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in relation to Interest Rate Benchmark Reform (IBOR reform) will have a minor impact. The amendments concern changes in contractual cash flows: If a change in the reference interest rate results in changes in contractual cash flows, the carrying amount of the financial instruments concerned shall not be adjusted or derecognised, but the effective interest rate shall be updated. The amendments are effective for annual periods beginning on or after 1 January 2021.

The following standards, amendments or interpretations were issued by the IASB and endorsed by the EU and had no impact on the financial statements: Amendments to IFRS 4 "Deferral of IFRS 9".

b) Standards, amendments and interpretations issued but not yet effective

- Amendments to IFRS 16 "COVID-19-Related Rent Concessions beyond 30 June 2021" have no impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 April 2021.

- Annual improvements to IFRS (2018-2020 cycle) with amendments to IFRS 1, IFRS 9, IFRS 16 (Illustrative Example) and IAS 41 have a minor impact on the financial statements with regard to the amendment to IFRS 9. The amendment clarifies which fees are to be included when assessing whether the contractual terms of a modified financial liability differ significantly from the original financial liability. The amendments are effective for annual periods beginning on or after 1 January 2022.

- Amendments to IFRS 3: "Reference to the Conceptual Framework", to IAS 16: "Property, Plant and Equipment: Proceeds before Intended Use" and to IAS 37: "Onerous Contracts: Cost of Fulfilling a Contract" will not have an impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2022.

- Amendments to IAS 1: "Classification of Liabilities as Current or Non-Current" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

- Amendments to IAS 1 and to IFRS Practice Statement 2: "Making Materiality Judgements" have a negligible impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

- Amendments to IAS 8: "Definition of Accounting Estimates" have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

- Amendments to IAS 12: "Deferred Tax related to Assets and Liabilities arising from a Single Transaction" have an impact on the measurement of deferred taxes. The amendments are an additional retrospective exception from the initial recognition exemption for IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions that give rise to equal deductible and taxable temporary differences on initial recognition. The amendments are effective for transactions occurring on or after the beginning of the earliest comparative period presented. At the beginning of the earliest comparative period presented, deferred taxes must be recognised for all temporary differences relating to leases. The cumulative effect of applying the amendments for the first time is recognised as an adjustment to the opening balance of retained earnings. The amendments are effective for annual periods beginning on or after 1 January 2023.

- IFRS 17 "Insurance Contracts" will not have an impact on the financial statements. The standard is effective for annual periods beginning on or after 1 January 2023.

There was no early adoption of any standards, amendments and interpretations not yet effective.

Summary of Significant Accounting Policies

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

6) Measurement basis

All financial instruments are measured at fair value at the moment of initial recognition. This is the transaction price at the time they are acquired. Depending on their respective category, financial instruments are recognised in the statement of financial position subsequently either at (amortised) cost or fair value. In general, financial instruments at fair value are measured on a recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

The measurement techniques to determine fair value applied to the balance sheet positions are specified in the accounting policies listed below. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a. in the *principal market* for the asset or liability; or
b. in the absence of a principal market, in the *most advantageous market* for the asset or liability.

The IFRS13 define a so-called hierarchy of fair value determination, which reflects the relative reliability of different methods of determining fair value:

(a) Active market: Quoted price (Level 1)
Observable quoted prices (unadjusted) for identical financial instruments in active markets that the entity can access at the measurement date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(b) Valuation technique using observable inputs (Level 2)
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Observable quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use valuation models where all significant inputs are observable.

(c) Valuation technique with significant non-observable inputs (Level 3)
Use valuation models where one or more significant inputs are not observable. If observable market interest rates are not available, internal rates are used as an input for a discounted cash flow model. Internal rates reflect the cost of funds, taking into account foreign currency effects and maturities as well as a risk margin, e.g. ProCredit Group Funding interest rates.

Internal rates are regularly compared to those applied for third-party transactions and are consistent with the parameters of an orderly transaction between market participants under market conditions at the measurement date.

The Bank obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

7) Financial assets

The Bank classifies its financial assets both according to their underlying business model and according their contractual cash flows.

Differentiation is made between the following business models: "hold to collect", "hold to collect and sell" and "other". Financial assets are assigned to the "hold to collect" business model if their objective is to collect contractual cash flows through interest and principal payments (SPPI conform). This model is applied for "Loans and receivables from customers", "Loans and advances to banks" and "cash and central bank balances". "Investment securities" are allocated to the "hold to collect and sell" business model; these financial assets are generally held (SPPI conform) in order to collect contractual cash flows, but can be sold as needed.
The assessment of the business models for financial assets are assessed on the basis of groups of financial assets (portfolios). The allocation to a business model is based on the actual circumstances at the time of the assessment. The key management of the Bank, taking into account all relevant and available data, performs the assessment of the business model. In this context, the purpose of the "hold to collect" business model is to hold financial assets for the purpose of collecting contractual cash flows. In addition, if certain financial instruments of this category are sold before their agreed maturity, this is not a direct indicator of the change in the business model of the bank, especially if such sales are not significant and with increased frequency, and moreover if aforesaid or similar financial instruments are expected to be managed within such a business model in the future. In case of early sales of assets, the Bank is obliged to make an analysis of whether there has been a change in the business model of the bank for these funds, taking into account the data on the frequency, periods and volume of sales, the reasons for the sales and the expectations of the bank for sales of assets in this category in the future.

To determine whether a financial asset should be classified as measured at amortised cost or FVOCI, the Bank assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion.

Within the contractual cash flows, the "principal" element covers the amount of the initial approval, reduced for all repayments; and the "interest" element is compensation for the time value of money, credit risk, liquidity risk, administrative or service costs and profit margin. In order to meet the SPPI requirement, contractual cash flows should not include any exposure to risk or volatility that does not constitute a common credit arrangement (for example, exposure to risk of change in stock prices or goods / goods). The assessment of whether the condition of SPPI is met is made in the currency in which the asset is denominated.

Those debtor financial assets that are deemed not to meet the requirement of SPPI, the bank will classify as financial assets that are measured at fair value through the Statement of Profit or Loss and will measure their fair value.
The analysis of whether the condition of SPPI is met is made at the initial recognition of each debt financial asset. The analysis of whether the SPPI requirement is met is made on the basis of the contractual terms of the instrument, taking into account all cash flows specified in the contract.
In case of change of the contractual cash flows of the existing financial asset, the bank on the date of the change makes an assessment / check whether the condition of SPPI is met with the new amended contractual conditions and accordingly classifies the financial asset.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

a) *Financial assets at amortised cost*

A financial asset is classified as "at amortised cost" if the financial asset is allocated to the "hold to collect" business model and the contractual cash flows meet the SPPI criterion. The financial assets arise when the group provides capital directly to a contracting party with no intention of trading the receivable.

Financial assets are recognised when the principal is advanced to the borrowers. These assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Amortised premiums and discounts are accounted for over the expected life of the financial instrument under "net interest income". At each balance sheet date, the Bank recognises expected credit loss as a difference between carrying amount and net present value of expected credit cash flows discounted with the original effective interest rate. Consequently, their carrying amount may be reduced through the use of an allowance account. If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs, which would have been incurred as of the valuation date if there had not been any impairment. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

As a result, the balance sheet items allocated to the "hold to collect" business model are: "Central bank balances", "Loans and advances to banks", "Loans and advances to customers" and "Other financial assets".

b) *Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

A financial asset is classified and recognised as "at fair value with changes in fair value recognised in Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model.
"Investment securities" allocated to this business model are those financial assets that are generally held "SPPI conform" in order to collect contractual cash flows but can be sold as needed.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. For the fair value measurement refer to Note 5. Gains and losses arising from changes in fair value are recognised in the Statement of Other Comprehensive Income under " Revaluation reserve".

If the financial asset is derecognised, the cumulative gain or loss previously recognised in the "Revaluation reserve" is recognised in the Statement of Profit or Loss in the position "Net result from investment securities".

Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Statement of Profit or Loss.

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the group has transferred substantially all risks and rewards of ownership.

8) Foreign currency translation

(a) *Functional and presentation currency*
Items included in these financial statements are measured in Macedonian denars (MKD), which is the functional currency of the Bank.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of profit or loss.

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI, a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in equity.

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.

The reporting exchange rates and average rates for the period used in the balance sheet and the income statement are listed in section (57) of these notes.

9) Cash and cash equivalents

Cash and central bank balances comprise cash on hand, treasury bills issued by Central Bank and balances at central banks that are highly liquid and readily convertible to cash with insignificant risk of changes in value and other bills eligible for discounting with central banks.

For the purposes of the cash flow statement, central bank balances comprise balances with less than three months' maturity from the date of acquisition. Restricted central bank balances (i.e. mandatory reserves) are deducted for cash flow purposes. Loans and advances to banks and amounts due from other banks with a maturity of less than three month like current accounts or nostro accounts, are accounted for in the respective accounts of the balance sheet position: "loans and advances to banks", but are incuded as cash for purposes of the cash flow statement.

10) Loans and advances to banks

The amounts reported under "Loans and advances to banks" consist mainly of loans and advances issued, allocated to the business model "hold to collect" (SPPI conform).

In addition to overnight and term deposits, the amounts reported under receivables from banks include nostro account balances.

All loans and advances to banks are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the expected life of the financial instrument in the income statement under "Net interest income".

For the purposes of the cash flow statement, claims to banks with original maturity of less than three months from the date of acquisition are recognised under "Cash and cash equivalents" (see note 33).

11) Credit Loss Allowance for losses on financial assets

Credit Loss allowances (CLA)
Recognition of loss allowances uses a three-stage model based on expected credit losses. Allocation to stages requires discretionary decisions to be made with regard to the definition of default, stage transfers and the determination of criteria as to whether there has been a significant increase in credit risk since recognition in the balance sheet:

- Stage 1: Generally, all financial assets are allocated to Stage 1 upon recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). We establish loss allowances in an amount equivalent to the expected credit losses during a maximum of 12 months following the balance sheet date, insofar as there is no significant increase in credit risk since initial recognition.

- Stage 2: If credit risk increases significantly, the assets are classified as Stage 2 and loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

- Stage 3: Impaired financial assets are classified as Stage 3 and loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined individually on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised on the net book value (less loss allowances).

Financial assets which are already impaired at initial recognition (POCI) are reported as part of the impaired exposures. These financial assets are initially recognised at fair value and thus no loss allowances are established. In subsequent periods, changes in the expected loss since initial recognition over the entire remaining maturity are recognised as an expense in the Statement of Profit or Loss.

Estimates and assumptions are particularly necessary for determining which future-related macroeconomic factors are to be included. Furthermore, determining probabilities in the weighting of scenarios requires discretionary decisions.

A non-substantial modification exists if a financial asset is modified without derecognition. The modification gain or loss is recognised in "Change in loss allowances". The modification gain or loss is equal to the difference between the original gross book value and the present value, discounted at the original effective interest rate, of the contractual cash flows under the modified terms.

Migration between the stages is possible in both directions, provided the grounds for the prior migration no longer exist. In the event that credit risk decreases, loss allowances already recorded are reduced.

The Bank sets aside loss allowances for central bank balances in the balance sheet item "Central bank balances" as well as for the balance sheet items "Loans and advances to banks", "Loans and advances to customers", "Investment securities", for the financial assets under "Other assets" and for contingent liabilities. These are recognised at net value within the corresponding balance sheet position; the exceptions are "Investment securities" recognised at fair value and contingent liabilities. The loss allowance for investment securities at fair value are recognised through profit or loss directly in shareholders' equity under "Revaluation reserve". Loss allowances for contingent liabilities are reported under the balance sheet item "Provisions".

For the "Other financial assets" position, loss allowances are established using the simplified approach. As a rule, loss allowances are recorded at initial recognition and on each subsequent reporting date in an amount equivalent to the expected credit losses during the total maturity period. For these generally short-term assets, the total maturity period has been set at 12 months.

Recoveries of written-off loans

When a loan is uncollectible, it is written off against the related loss allowance, which has been set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts, which have been written off, are recognised in the Statement of Profit or Loss under "Loss allowances".

Financial assets that are written off could still be subject to enforcement activities in order to recover the amounts due.

12) Intangible assets

(a) *Computer software*

Software is stated at acquisition or production cost less scheduled depreciation and impairment losses. The acquisition or production costs include all expenses to acquire or to develop and bring to use the specific software. Management makes the discretionary decision to amortise software on a straight-line basis over an expected useful life of up to five years. In addition, software is tested for impairment on an annual basis or in response to relevant events or changed circumstances. Depreciation and impairment are recognised within "Administrative expenses".

13) Property, plant and equipment

Land and buildings comprise mainly head office, branches and offices. All property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of profit or loss during the financial period in which they are incurred.

Depreciation property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings	40 years
– Leasehold improvements	5 years
– Computers	4 years
– Furniture	5 years
– Motor vehicles	4 years
– Other	5 - 7 years

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

The Bank does not hold investment property.

13 a) Repossessed properties

Repossessed properties are non-financial assets acquired in exchange for credit exposures as part of an orderly realisation and are sold as soon as possible. The bank can only recognise a repossessed property, if the collateral seized legally belongs to the bank and the bank has the right to sell it to third parties. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan at the date of exchange. A repossessed property is accounted for under IFRS 5 – Held for sale assets, and expected to be soldas soon as possible, except if there is a delay caused by events or circumstances beyond the entity's controls and there is sufficient evidence that the entity remains committed to its plan to sell the asset. The maximum period of holding repossessed property on the bank's balance sheet is 3 years. After 3 years the bank has to write-off the assets.

14) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

15) Leases

(a) *ProCredit is the lessee*

The leases disclosed by the Bank are divided into finance lease and operating lease. As a lessee, the Bank leases branch and other premises. Under IFRS 16, the Bank recognises "right-of-use" assets under "Property, Plant and Equipment" and leasing liabilities under "Other liabilities" in the balance sheet for these leases.

At the inception of a contract, the Bank assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Right-of-use asset (ROU asset) represents the Bank's right to use an underlying asset for the lease term. Right to direct the use of an asset is the right to decide when, how and in which way the asset will be used.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, if any.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the ROU asset is periodically reduced by impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the bank's incremental borrowing rate. In general, the Bank uses its incremental borrowing rate as discount rate. Incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Bank determine incremental borrowing rate in a currency in which the lease payments are denominated.
Subsequently, the lease liability is measured at amortised cost using the effective interest rate method. The Bank measure the lease liability by reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications.

Additionaly, IFRS 16 contains two exemptions for lease contract to be classified as a lease: short-term leases, and leases for which the underlying asset is of low value. The Bank has elected not to recognise ROU assets and lease liabilities for short-term leases and leases of low-value. The term "low-value" in ProCredit group is defined as any amount under EUR/USD 5.000 per item. Short-term leases are leases with a lease term of 12 months or less. The lease term also includes periods covered by an option to extend, or an option to terminate, if the lessee is reasonably

certain to exercise the extension option, or not to exercise the termination option. A lease that contains purchase option is not a short-term lease. Short-term leases or leases based on assets of minor value are not recognised in the balance sheet; instead, the lease payments are recognised under administrative expenses in the statement of profit or loss over the term of the lease.

(b) *ProCredit is the lessor*

The Bank does not act as lessor.

16) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity, through other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date of 10%, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and its tax base. These temporary differences induce deferred taxes provided they lead to a tax burden or relief in the future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized for unused tax losses, unused tax credit and deductible temporary differences to the extent for which is probable that the future taxable profits against which the asset can be utilized. Deferred tax assets are estimated at the end of each reporting period and reduced to the extent that is no longer probable that these tax revenues will be realized. Any such reduction should be reversed to the extent that it is probable that sufficient taxable profit will be available. Unrecognised deferred tax assets are assessed at the end of each reporting period and recognised to the extent it is probable that future taxable income will be sufficient against which the asset can be utilised.

17) Financial liabilities

Financial liabilities comprise of liabilities to banks, liabilities to customers and subordinated debt.

Financial liabilities are recognised initially at fair value net of transaction costs incurred. Subsequently are measuered at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the liability using the effective interest rate method.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

18) Provisions

Provisions are recognised if:

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will not be earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

Provisions for imminent losses from off-balance sheet items mainly consist of provisions for loan commitments (commitments to provide credit under pre-specified terms and conditions) and financial guarantees (require the Bank 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).

Financial guarantees and loan commitments are subsequently recognised and measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initial recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

For undrawn loan commitments, a credit loss is the present value of the differences between (a) the contractual cash flows that are due to the entity of the holder of the loan commitment draws down the loan and (b) the cash flows that the entity expects to receive if the loan is drawn down.

Financial guarantees are initially measured at their fair value and subsequently measured at the higher of: a) the unamortized balance of related fees received and deferred and b) the best estimate of the amount required to settle guarantee at the reporting date.

19) Post-employment benefits and other employee benefits

(a) Employee benefits

Employee benefits comprise all kinds of benefits provided for the Bank's employees. This item includes salaries and wages as well as social contribution and fringe benefits.

The Bank, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages according to the legislation requirements. The Bank makes these contributions to the Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments. The Bank pays contributions to public pension insurance fund on a mandatory basis.

Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute costs for the year in which they are due and as such are included in personnel expenses. The cost of these payments is charged to the income statement in the same

period as the related salary cost. The Bank does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions to the employees. In addition, the Bank does not operate shared based compensation plan in exchange to the employee services provided.

(b) Other post-employment obligations
In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement. There is no additional liability in respect of post retirement.

The long-term employee benefits are discounted to determine their present value.

20) Subordinated debt

Subordinated debt consists mainly of liabilities to shareholders, which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied.

Following initial recognition at fair value, the subordinated debt is recognised at amortised cost. Premiums and discounts are accounted for over the respective terms in the income statement under "Net interest income".

21) Equity capital

Equity capital comprises of ordinary shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds as (negative) capital reserve.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the bank's shareholders.

22) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overs and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of: the amount initially recognised, less amortization of the fee income earned on a straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

23) Interest income and expense

Interest income and expenses for all interest-bearing financial instruments are recognised within "Interest income" and "Interest expense" in the Statement of profit or loss using the effective interest rate method.

The effective interest method is a method of calculating the amortised 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 exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Net interest income is calculated on the gross book value financial asset classified in Stage 1 and Stage 2. For financial assets in Stage 3, net interest income is calculated on the net book value.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Payments received with respect to written-off loans are not recognised in net interest income.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of the interest income reverts to the gross basis.

24) Fee and commission income and expenses

Fees are charges for services rendered by the bank. The Bank charges fees from banks and clients for services such as maintenance fee, transaction-based fees or product issuing fees. They are transaction-based and often computed as a fixed percentage of the transaction value.

Fees and commissions, which are integral part of the effective interest rate of financial instruments are included in the calculation of the effective interest rate and are amortized over the expected life of the financial instrument. These fees and commissions are gradually differentiated and recognized as part of the amortized amount for the period, within interest income or expenses.

For fees and commissions which are not integral part of the effective interest rate, the Bank recognize revenue and respective expenses when the Bank satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.

Fees received for performing significant activity are recognized as income / expenses when the respective activity has been performed.

Result for the financial year

25) Net interest income

	1.1-31.12.2021	1.1-31.12.2020
Interest income from		
Cash and central bank balances	6,900	12,789
Loans and advances to banks	1,642	132
Investment securities FVOCI	3,462	2,076
Loans and advances to customers	998,931	926,988
Prepayment penalty	2,615	3,861
Interest income (effective interest method)	**1,013,550**	**945,846**
Interest expenses on		
Liabilities to banks*	(88,936)	(92,835)
Liabilities to customers	(176,063)	(199,644)
Subordinated debt	(56,617)	(36,938)
Negative interest from assets*	(18,072)	(14,264)
Interest expenses	**(339,688)**	**(343,681)**
Net interest income	**673,862**	**602,165**

** Previous year figures have been adapted to the current disclosure structure (see note 3).*

26) Net fee and commission income

in '000 MKD	1.1.-31.12.2021	1.1.-31.12.2020
Fee and commission income from		
Payment services	103,075	83,727
Debit/credit cards	49,670	41,838
Account maintenance fee	124,019	119,179
Letters of credit and guarantees	27,353	22,533
Others	14,602	15,605
Fee and commission income	**318,719**	**282,882**
Fee and commission expenses on		
Payment services	(47,873)	(38,843)
Debit/credit cards	(58,999)	(49,542)
Account maintenance fee	(408)	(408)
Letters of credit and guarantees	(32,830)	(13,438)
Others	(1,950)	(1,895)
Fee and commission expenses	**(142,060)**	**(104,126)**
Net fee and commission income	**176,659**	**178,756**

The item "other fee and commission income" consists of transactions carried out on behalf of third parties.

27) Result from foreign exchange transactions

"Result from foreign exchange transactions" refers to the results of foreign exchange dealings with and for customers. The Bank is not engaged in any foreign currency trading on its own account. In addition, this position includes unrealised foreign currency revaluation effects. The Bank does not apply hedge accounting as defined by IFRS 9.

in '000 MKD	1.1.-31.12.2021	1.1.-31.12.2020
Currency exchange	119,737	88,966
Net gains and losses from FX revaluation	1,256	(1,311)
Total	**120,993**	**87,655**

28) Net other operating income/expense

in '000 MKD	1.1.-31.12.2021	1.1.-31.12.2020
Other operating income from		
Reversal of provisions	-	1,481
Repossessed properties	8,640	17,961
Sale of property, plant and equipment	1,969	3,159
Others	20,739	8,040
Other operating income	**31,348**	**30,641**
Other operating expenses for		
Deposit insurance	(22,503)	(22,157)
Disposal of property, plant and equipment	(323)	(226)
Impairment of repossessed properties	(20,969)	(44,923)
Administration of repossessed properties	(3,195)	(1,130)
Others	(15,110)	(26,060)
Other operating expenses	**(62,100)**	**(94,496)**
Net other operating result	**(30,752)**	**(63,855)**

29) Personnel expenses and employees

Personnel expenses can be broken down as follows:

in '000 MKD	1.1.-31.12.2021	1.1-31.12.2020
Salary expenses	(195,612)	(180,504)
Post-employment benefits plans (Defined benefit plans)	(465)	(1,146)
Other employee benefits	(5,211)	(5,208)
Personnel expenses	**(201,288)**	**(186,858)**

30) Administrative expenses

"Administrative expenses" include the following items:

in '000 MKD	1.1.-31.12.2021	1.1.-31.12.2020
Depreciation fixed and intangible assets (incl. Impairment)	(55,067)	(57,947)
IT expenses	(193,480)	(146,468)
Office space-related expenses	(52,218)	(56,987)
Non-profit tax	(40,434)	(29,658)
Legal and consulting fees	(26,790)	(18,420)
Marketing, advertising and representation	(12,617)	(8,205)
Transport	(4,396)	(4,629)
Recruitment and other personnel-related expenses	(57,947)	(51,514)
Insurances	(5,604)	(3,404)
Lease expenses	(1,365)	(1,538)
Other administrative expenses	(2,724)	(3,980)
Administrative expenses	**(452,641)**	**(382,750)**

Of the total administrative expenses, MKD 18,612 thousand (2020: MKD 15,695 thousand) was incurred for staff training.

31) Loss allowance

Risk provisioning on loans and advances to customers is reflected in the income statement as follows:

in '000 MKD	1.1.-31.12.2021	1.1.-31.12.2020
Change in loss allowances	(105,172)	(69,528)
Recovery of written-off loans	21,289	66,597
Loss allowance	**(83,883)**	**(2,931)**

32) Earnings per share

in '000 MKD	1.1-31.12.2021	1.1-31.12.2020
Profit of the period	186,010	209,584
Profit attributable to ProCredit shareholders	*186,010*	*209,584*
Weighted average number of ordinary shares	2,957,351	2,957,351
Earnings per share	**0,06**	**0,07**

Notes to the Statement of Financial Position

33) Cash and Central Bank balances

in '000 MKD	31.12.2021	31.12.2020
Cash in hand	441,245	418,938
Balances at Central Banks	6,058,387	5,042,175
Treasury bills with original maturity of less than three months	508,665	472,764
Loss allowance for central banks	(1,638)	(1,427)
Cash and central bank balances	**7,006,659**	**5,932,450**
Loans and advances to banks with a maturity up to 3 months	2,913,378	2,366,344
Minumum resrve, which does not qualify as cash for the statemnt of cash flows	(2,491,479)	(2,054,231)
Total cash and balances with the Central Bank	**7,428,558**	**6,244,563**

Treasury bills are issued by National Bank of North Macedonia and can be traded on the secondary market. These bills are with original maturity of 28-35 days and interest rate is 1,25% (2020: 1,50%).

Mandatory reserve is calculated based on the average balance of deposit liabilities as defined in the Decision of Mandatory reserve issued by National Bank of North Macedonia. The amount of mandatory reserve in MKD is 1,371,190 MKD thousand as of 31.12.2021 (2020: 1,120,520 MKD thousand), while in foreign currency the amount of mandatory reserve is 1,120,289 MKD thousand (2020: 933,711 MKD thousand). Mandatory reserve in MKD in non-interest bearing, while for mandatory reserve in foreign currency the Bank pays/receives compensation at the rate equal to the interest rate of the available overnight deposit of the European Central Bank.

Loans and advances to Banks with original maturity up to three months, which qualify as cash and cash equivalents are sign deposits on nostro accounts, unrestricted demand deposits and placements with other banks and financial institutions with the original maturity less than three months.

The changes in cash and cash equivalents and the respective loss allowances are presented in the following tables:

in '000 MKD	31.12.2021	31.12.2020
Gross outstanding amount as of 1 January	5,933,877	3,795,219
New financial assets originated	1,808,135	2,914,288
Derecognition	(2,331,858)	(1,126,016)
Change in exposure*	1,598,143	350,386
Gross outstanding amount as of 31 December	**7,008,297**	**5,933,877**

**Previous year figures have been adapted to the current disclosure structure*

in '000 MKD	31.12.2021	31.12.2020
Loss allowances as of 1 January	(1,427)	(1,162)
New financial assets originated	(15)	(25)
Release due to derecognition	25	(240)
Change in credit risk	(221)	-
Loss allowances as of 31 December	**(1,638)**	**(1,427)**

34) Loans and advances to Banks

Loans and advances to Banks are as follows:

in '000 MKD	31.12.2021	31.12.2020
up to three months	2,913,378	2,366,344
Loans and advances to banks	**2,913,378**	**2,366,344**

The changes in loans and advances to banks and the respective loss allowances are presented in the following tables. All loans and advances to banks are classified as Stage 1.

in '000 MKD	31.12.2021	31.12.2020
Gross outstanding amount as of 1 January	2,366,350	2,277,444
New financial assets originated	404,876	215,935
Derecognition	(215,929)	(76,933)
Change in exposure*	358,088	(50,096)
Gross outstanding amount as of 31 December	**2,913,385**	**2,366,350**

**Previous year figures have been adapted to the current disclosure structure.*

in '000 MKD	31.12.2021	31.12.2020
Loss allowances as of 1 January	(6)	(1)
New financial assets originated	(4)	(4)
Release due to derecognition	3	
Change in credit risk	-	(1)
Loss allowances as of 31 December	**(7)**	**(6)**

35) Investment securities

in '000 MKD	31.12.2021 Investment securities at FVOCI	31.12.2020 Investment securities at FVOCI
Fixed interest rate securities	754,427	381,137
Investment securities	**754,427**	**381,137**

This balance sheet item includes bills issued by Ministry of finance, in amount of 668,256 MKD thousand (2020: 360,014 thousand), with original maturity of up to 1 year and interest rates from 0.40% to 0.50% and Eurobonds, issued by Ministry of Finance of Republic of North Macedonia, in net amount of 86,171 thousand (2020: 21,123 thousand), with nominal coupon rate of 3.675% and maturity in June 2026.

The changes in investment securities and the respective loss allowances are presented in the following tables. All investment securities are classified in Stage 1.

in '000 MKD	31.12.2021 Investment securities at FVOCI	31.12.2020 Investment securities at FVOCI
Gross outstanding amount as of 1.1.2021	381,137	437,108
New financial assets originated	733,492	381,137
Derecognition	(360,013)	(437,108)
Change in exposure*	(189)	-
Gross outstanding amount as of 31.12.2021	**754,427**	**381,137**

**Previous year figures have been adapted to the current disclosure structure.*

in '000 MKD	31.12.2021 Investment securities at FVOCI	31.12.2020 Investment securities at FVOCI
Loss allowances as of 1.1.2021	(185)	(367)
New financial assets originated	(241)	(185)
Release due to derecognition	172	367
Loss allowances as of 31.12.2021	**(254)**	**(185)**

The Bank is making regular revaluation of the Fair Value of these investments according to the values calculated with a valuation technique based on currently observable market data. The revaluation reserve for investment securities in equity in other comprehensive income shows the following changes:

in '000 MKD	31.12.2021	31.12.2020
Revaluation reserve as of 1 January	**651**	**773**
Changes in fair value	(3,408)	112
Change in loss allowance	69	(182)
Deferred taxes	341	(52)
Revaluation reserve as of 31 December	**(2,347)**	**651**

The tables below are showing movements in Gross outstanding amounts and Loss allowances by Stage for 2021 and 2020.

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January 2021	**25,428,462**	**372,894**	**362,233**	**1,843**	**26,165,433**
New financial assets originated	10,141,206	277,184	100,212	1,160	**10,519,761**
Modification of contractual cash flows of financial assets	899	695	(499)	-	**1,094**
Derecognitions	(3,928,136)	(166,302)	(189,488)	-	**(4,283,926)**
Write-offs	-	-	(77,993)	(1,035)	**(79,028)**
Changes in interest accrual	12,845	2,011	3,518	183	**18,557**
Changes in the principal and disbursement fee	(3,601,038)	(123,726)	(180,289)	(324)	**(3,905,377)**
Transfers to stage 1	134,686	(122,304)	(12,383)	-	**-**
Transfers to stage 2	(525,539)	554,335	(28,796)	-	**-**
Transfers to stage 3	(207,688)	(310,167)	517,855	-	**-**
Foreign exchange and other movements	(20,398)	(2,557)	24,649	-	**1,694**
Gross outstanding amount as of 31 December 2021	**27,435,299**	**482,063**	**519,018**	**1,827**	**28,438,208**

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1 January 2021	**(168,416)**	**(20,331)**	**(221,865)**	**(123)**	**(410,734)**
New financial assets originated	(81,107)	(16,955)	(16,926)	-	**(114,988)**
Release due to derecognition	15,275	5,725	38,599	-	**59,600**
Transfers to Stage 1	(1,764)	1,423	341	-	**-**
Transfers to Stage 2	5,984	(8,916)	2,932	-	**-**
Transfers to Stage 3	3,038	9,377	(12,415)	-	**-**
Change in credit risk	49,185	812	(110,403)	49	**(60,357)**
Usage of allowance	-	-	79,028	-	**79,028**
Foreign exchange and other movements	64	26	(956)	-	**(866)**
Loss allowances as of 31 December 2021	**(177,740)**	**(28,840)**	**(241,664)**	**(74)**	**(448,318)**

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Gross outstanding amount as of 1 January 2020	**21,965,919**	**820,992**	**434,980**	**7,848**	**23,229,739**
New financial assets originated	9,280,953	189,133	184,571	1,843	**9,656,500**
Modification of contractual cash flows of financial assets	(11,646)	(4,620)	(2,050)	-	**(18,316)**
Derecognitions	(2,757,978)	(314,439)	(177,839)	(7,848)	**(3,258,104)**
Write-offs	-	-	(63,309)	-	**(63,309)**
Changes in interest accrual	23,971	2,292	1,849	-	**28,112**
Changes in the principal and disbursement fee	(3,132,168)	(185,437)	(163,303)	-	**(3,480,908)**
Transfers to stage 1	940,557	(929,534)	(11,023)	-	-
Transfers to stage 2	(891,356)	950,190	(58,834)	-	-
Transfers to stage 3	(41,363)	(166,175)	207,538	-	-
Foreign exchange and other movements	51,573	10,493	9,653	-	**71,719**
Gross outstanding amount as of 31 December 2020	**25,428,462**	**372,895**	**362,233**	**1,843**	**26,165,433**

in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowances as of 1 January 2020	**(96,218)**	**(17,772)**	**(272,881)**	**(563)**	**(387,434)**
New financial assets originated	(55,477)	(8,435)	(71,584)	(123)	**(135,619)**
Release due to derecognition	7,076	8,421	77,953	563	**94,013**
Transfers to Stage 1	(11,537)	11,300	237	-	-
Transfers to Stage 2	5,842	(11,167)	5,325	-	-
Transfers to Stage 3	457	9,113	-9,570	-	-
Change in credit risk	(18,377)	(11,762)	(12,624)	-	**(42,763)**
Usage of allowance	-	-	63,309	-	**63,309**
Foreign exchange and other movements	(181)	(29)	(2,029)	-	**(2,239)**
Loss allowances as of 31 December 2020	**(168,415)**	**(20,332)**	**(221,864)**	**(123)**	**(410,734)**

All financial assets are allocated to Stage 1 at initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). The movements in line "New financial assets originated" in Stage 2 and Stage 3 refer to transfers of existing exposures to higher risk category due to increase in the risk classification after initial recognition during the financial year. Additionally, in this position are included overdrafts and credit lines withdrawn during the year from existing clients classified in Stage 2.

The following table shows the share of our loan portfolio which is subject to moratoria due to COVID-19 or which has been restructured due to COVID-19.

	31.12.2021				
in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Loan portfolio					
currently under moratorium:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	-	-	-
with expired moratorium:					
moratorium only	3,747,637	13,133	38,236	-	**3,799,006**
moratorium and restructuring		251,601	107,264	-	**358,865**
with restructuring but not under moratorium	-	-	-	-	-

	31.12.2020				
in '000 MKD	Stage 1	Stage 2	Stage 3	POCI	Total
Loan portfolio					
currently under moratorium:					
moratorium only	-	-	-	-	-
moratorium and restructuring	-	-	-	-	-
with expired moratorium:					
moratorium only	5,793,655	103,134	38,421	-	**5,935,210**
moratorium and restructuring		44,136	62,074	-	**106,211**
with restructuring but not under moratorium	-	-	-	-	-

37) Property, plant and equipment

The development of property, plant and equipment was as follows:

in '000 MKD	Land and buildings	Land and buildings (ROU)	Equipment	Equipment (ROU)	Total
Total acquisition costs at January 1, 2021	**767,035**	**39,788**	**480,901**	-	**1,287,724**
Additions	1,047	17,816	10,035	-	28,898
Transfers	-	-	-	-	-
Disposals/Write offs	(9,823)	(771)	(18.192)	-	(28,786)
Total acquisition costs at December 31, 2021	**758,259**	**56,833**	**472,744**	-	**1,287,836**
Accumulated depreciation at January 1, 2021	**128,091**	**17,705**	**421,252**	-	**567,048**
Depreciation	16,536	9,186	28,279	-	54,000
Disposals/Write offs	(3,374)	-	(15,696)	-	(19,070)
Accumulated depreciation at December 31, 2021	**141,253**	**26,891**	**433,835**	-	**601,979**
Net book value at December 31,2021	**617,006**	**29,943**	**38,909**	-	**685,858**

in '000 MKD	Land and buildings	Land and buildings (ROU)	Equipment	Equipment (ROU)	Total
Total acquisition costs at January 1, 2020	**766,923**	**39,343**	**472,232**	-	**1,278,498**
Additions	112	637	19,704	-	20,453
Transfers	-	-	-	-	-
Disposals/Write offs	-	(192)	(11,035)	-	(11,227)
Total acquisition costs at December 31, 2020	**767,035**	**39,788**	**480,901**	-	**1,287,724**
Accumulated depreciation at January 1, 2020	**111,403**	**8,484**	**401,971**	-	**521,858**
Depreciation	16,688	9,221	29,863	-	55,772
Disposals/Write offs	-	-	(10,582)	-	(10,582)
Accumulated depreciation at December 31, 2020	**128,091**	**17,705**	**421,252**	-	**567,048**
Net book value at December 31,2020	**638,944**	**22,083**	**59,649**	-	**720,676**

38) Intangible assets

The development of the intangible assets is shown in the following tables:

in '000 MKD **Software**	**1.1-31.12.2021**	**1.1-31.12.2020**
Net book value at January 1	**3,446**	**4,890**
Total acquisition costs at January 1	61,783	114,076
Additions	1,313	730
Disposals	-	-
Total acquisition at December 31	**63,096**	**114,806**
Accumulated depreciation at January 1	(58,337)	**(109,186)**
Amortization	(1,366)	**(2,174)**
Disposals	-	-
Transfers	-	-
Accumulated depreciation at December 31	**(59,703)**	**(111,360)**
Net book value at December 31	**3,393**	**3,446**

39) Income taxes

The following table shows the main components of income tax expense:

in '000 MKD	**1.1.-31.12.2020**	**1.1.-31.12.2021**
Current tax	22,193	11,629
Deferred tax relating to origination and reversal of temporary differences	404	5,311
Income tax expenses	**22,598**	**16,940**
Deferred tax on revaluation reserve	(52)	289
Items charged or credited directly to equity	**(52)**	**289**
Total	**22,546**	**17,229**

Deferred tax assets and deferred tax liabilities result from taxable/deductible temporary differences, which arise between the carrying amount of an asset/liability in the balance sheet and its tax base (the amount that is attributed to that asset/liability for tax purposes). The table below shows the changes in deferred income taxes and the underlying business transactions:

in '000 MKD **Movement in deferred tax balances**	**1.1.-31.12.2021**	**1.1.-31.12.2020**
Net balance at January 1	(10,056)	(9,599)
- Recognised in OCI	341	(53)
- Recognised in profit or loss	(5,311)	(404)
Deferred tax assets/(liabilities)	**(15,026)**	**(10,056)**

Reconciliation of effective tax rate

in '000 MKD	31.12.2021	31.12.2021	31.12.2020	31.12.2020
Profit/(loss) before tax	%	**202,951**	%	**232,182**
Tax using the domestic tax rate	10.00%	20,295	10.00%	23,218
Non-tax deductible expenses	0.40%	812	0.33%	798
Tax incentive	(2.05%)	(4,167)	(0.61%)	(1,418)
Total income tax expense in profit and loss	**8.35%**	**16,940**	**9.72%**	**22,598**

in '000 MKD	31.12.2021	31.12.2020
Tax assets		
Current tax assets	8,742	-
Total	**8,742**	**-**

in '000 MKD	31.12.2021	31.12.2020
Tax liabilities		
Current tax liabilities	-	(3,423)
Deferred tax liabilities	(15,026)	(10,056)
Total	**(15,026)**	**(13,479)**

Changes of deferred taxes related to fair value re-measurement of investment securities in the previous year are charged to the Consolidated Statement of Other Comprehensive Income. The presentation in the Consolidated Statement of Other Comprehensive Income is made on a gross basis. During the financial year, the respective deferred taxes at the time of sale were recognised in the Consolidated Statement of Profit or Loss together with the deferred gain or loss.

40) Other assets

in '000 MKD	31.12.2021	31.12.2020
Accounts receivable	28,818	47,422
Prepayments	29,472	29,941
Others	86,841	73,072
Loss allowance	(529)	(564)
Other financial assets	**144,603**	**149,872**
Repossessed properties	118,268	88,853
Inventory and assets to be sold	768	767
Other non-financial assets	**119,036**	**89,620**
Total	**263,639**	**239,491**

The changes in other financial instruments and the respective loss allowances are presented in the following tables. The simplified approach is used when establishing loss allowances.

Other financial assets

in '000 MKD	31.12.2021	31.12.2020
Gross outstanding amount as of 1 January	150,436	125,943
Change in exposure*	(5,304)	24,493
Gross outstanding amount as of 31 December	**145,132**	**150,436**

Loss allowances other financial assets

in '000 MKD	31.12.2021	31.12.2020
Loss allowances as of 1 January	(564)	(440)
Change in credit risk	35	(124)
Loss allowances as of 31 December	**(529)**	**(564)**

Repossessed properties are non-financial assets acquired in exchange for credit exposures as part of an orderly realisation and are sold as soon as possible.

Repossessed properties have net increase by 29,415 MKD thousands (2020: 19,084 MKD thousands).

Repossessed properties

in '000 MKD	31.12.2021	31.12.2020
Outstanding amount as of 1 January	88,853	69,769
Additions	138,455	115,104
Impairment	(18,105)	(32,871)
Disposal of Impairment in case of write-off and sale	16,841	93,155
Reversal of impairment	-	-
Sale (disposal at time of sale)	(107,377)	(156,304)
FX differences	(399)	-
Total	**118,268**	**88,853**

41) Pledged and transferred assets

	31.12.2021		31.12.2020	
in '000 MKD	Pledged assets that can be repledged or sold	Related liability	Pledged assets that can be repledged or sold	Related liability
Loans and advances to banks	-	-	-	-
Loans and advances to customers	1,132,419	1,785,546	1,687,705	2,157,666
Other assets	-	-	-	-
Total	**1,132,419**	**1,785,546**	**1,687,705**	**2,157,666**

The total volume of this item consist of pledged receivables toward clients for channelled loans funded from Development Bank of North Macedonia. The pledges would be exercised in case of default of interest or principal payment on the respective loans .The maturities of the pledges are in line with the related liabilities.

42) Liabilities to Banks

Balance of liabilities to banks consist of short term interbank loans, long term loans from ProCredit Bank Germany and loans received from domestic and international development banks. The table below shows outstanding balance of liabilities toward these institutions split by remaining maturity:

in '000 MKD	31.12.2021	31.12.2020
up to three months	736,742	508,309
up to one year	3,017,254	2,101,737
more than one year	5,111,660	4,263,842
Liabilities to banks	**8,865,656**	**6,873,888**

	31.12.2021	31.12.2020
Current	3,753,996	2,610,046
Non-current	5,111,660	4,263,842
Total	**8,865,656**	**6,873,888**

As of 31.12.2021 the following long term deposits and loans are outstanding:

1) Loans received from ProCredit Bank Germany:
   - Long term loan in amount of 5,000,000 EUR withdrawn on 24.02.2016, with maturity date 25.02.2022;
   - Long term loan in amount of 3,000,000 EUR withdrawn on 30.10.2017, with maturity date 29.10.2027;
   - Long term loan in amount of 2,000,000 EUR withdrawn on 29.01.2018, with maturity date 31.01.2028;
   - Long term loan in amount of 2,000,000 EUR withdrawn on 20.02.2018, with maturity date 18.02.2028;
   - Long term loan in amount of 4,000,000 EUR withdrawn on 30.07.2019, with maturity date 01.08.2022.

2) Loans received from Council of Europe Development Bank:
   - Long term loan with original principal in amount of 4,000,000 EУР withdrawn on 28.11.2017 with maturity date 28.11.2022. Outstanding liabilities as of 31.12.2021 are amounting to 800,000 EUR;
   - Long term loan with original principal in amount of 3,400,000 EУР withdrawn on 29.10.2018 with maturity date 29.10.2023. Outstanding liabilities as of 31.12.2021 are amounting to 1,360,000 EUR;
   - Long term loan with original principal in amount of 2,600,000 EУР withdrawn on 12.02.2019 with maturity date 12.02.2024. Outstanding liabilities as of 31.12.2021 are amounting to 1,300,000 EUR.

3) Loans received from European Investment Bank:
   - Long term loan with original principal in amount of 5,000,000 EUR withdrawn on 10.07.2015 with maturity date 12.07.2027. Outstanding liabilities as of 31.12.2021 are amounting to 3,529,412 EUR;
   - Long term loan with original principal in amount of 3,000,000 EUR withdrawn on 28.10.2016 with maturity date 28.10.2023. Outstanding liabilities as of 31.12.2021 are amounting to 1,000,000 EUR;

- Long term loan with original principal in amount of 7,000,000 EUR withdrawn on 13.07.2018 with maturity date 13.07.2023. Outstanding liabilities as of 31.12.2021 are amounting to 2,450,000 EUR;
- Long term loan with original principal in amount of 15,000,000 EUR withdrawn on 09.08.2021 with maturity date 09.08.2028. Outstanding liabilities as of 31.12.2021 are amounting to 15,000,000 EUR.

4) Loans received from European Bank for Reconstruction and Development:
   - Long term loan with original principal in amount of 5,000,000 EUR withdrawn on 23.12.2019 with maturity date 04.10.2026. Outstanding liabilities as of 31.12.2021 are amounting to 4,545,455 EUR;
   - Long term loan with original principal in amount of 1,000,000 EUR based on agreement signed on 22.10.2019 withdrawn in 3 separate tranches during 2020. Outstanding liabilities as of 31.12.2021 are amounting to 1,000,000 EUR;
   - Long term loan with original principal in amount of 2,500,000 EUR withdrawn on 12.03.2021 with maturity date 29.12.2027. Outstanding liabilities as of 31.12.2021 are amounting to 2,500,000 EUR;
   - Long term loan with original principal in amount of 1,000,000 EUR withdrawn on 11.03.2021 with maturity date 29.12.2027. Outstanding liabilities as of 31.12.2021 are amounting to 1,000,000 EUR;
   - Long term loan with original principal in amount of 2,000,000 EUR based on agreement signed on 06.09.2021 withdrawn in 2 separate tranches during 2021.Outstanding liabilities as of 31.12.2021 are amounting to 2,000,000 EUR;
   - Long term loan with original principal in amount of 15,000,000 EUR based on agreement signed on 10.11.2020 withdrawn in 4 separate tranches during 2021. Outstanding liabilities as of 31.12.2021 are amounting to 10,000,000 EUR.

5) Loans received from Development Bank of North Macedonia as follows:

   a) Credit line for support of small and medium enterprises with outstanding balance of 6,996,818 EUR. Within this line the bank pays different interest rates as follows:
      - 1 loan in amount in amount of 146,818 EUR withdrawn in 2015 with maturity date in 2026;
      - 3 credit lines in amount in amount of 6,850,000 EUR withdrawn in 2016 and 2017 with maturity in 2027 and 2028.

   b) Credit line for agricultural support with outstanding balance of 191,514 EUR withdrawn after 2011 and maturity date in 2025.

   c) Credit line with funds from European Investment Fund with outstanding balance of 45,774,911 EUR withdrawn after 2014 and maturing in 2033.

Amount of EUR 23,798,300 (MKD 1,256,545 thousand) was withdrawn during 2021 in 2 separate transhes with maturity from 3 and 10 years. Part of the outstanding borrowings in the amount of MKD 1,785,545 thousand (2020: MKD 2,157,666 thousand) are secured over loans and advances to customers with a carrying amount of MKD 1,132,419 thousand (2020: MKD 1,687,705 thousand).

As of 31.12.2021 Blue Orchard Microfinance Fund has deposit in amount of 10,000,000 EUR with one year maturity.

The changes in borrowings from Procredit Bank Germany included in liabilities to banks are as follows:

		Cashflow			Non-cashflow		
in '000 MKD	31.12.2020	Cash out (principal)	Cash out (interest)	Cash in (principal)	Deferred fees and accrued interest	Foreign exchange movement	31.12.2021
Liabilites to banks	6,873,888	(1,695,093)	(65,230)	3,698,781	60,764	(7,454)	**8,865,656**
Total	**6,783,888**	**(1,695,093)**	**(65,230)**	**3,698,781**	**60,764**	**(7,454)**	**8,865,656**

43) Liabilities to customers

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

in '000 MKD	31.12.2021	31.12.2020
Current accounts	**13,924,708**	**11,602,009**
-private individuals	1,897,836	1,594,103
-legal entities	12,026,872	10,007,906
Savings accounts	**4,241,973**	**2,776,036**
-private individuals	4,241,973	2,776,036
Term deposit accounts	**7,237,437**	**8,239,255**
-private individuals	3,380,274	4,509,720
-legal entities	3,857,163	3,729,535
Other liabilities to customers	**753,419**	**1,772,324**
Total	**26,157,537**	**24,389,624**

Current	22,773,125	20,618,879
Non-current	3,384,412	3,770,745
Total	**26,157,537**	**24,389,624**

The category "legal entities" includes liabilities to commercial companies, non-governmental organisations (NGOs) and public-sector institutions.

44) Subordinated debt

The subordinated debt can be broken down as follows:

in '000 MKD	up to 3 months	3-12 months	1-5 years	more than 5 years	noncash-relevant	31.12.2021
Subordinated debt	8,852	11,136	-	1,294,167	-	1,314,155
Subordinated debt	**8,852**	**11,136**	**-**	**1,294,167**	**-**	**1,314,155**

The change in subordinated debt is as follows:

in '000 MKD	
Book value as of 31.12.2020	**1,032,358**
Cashflow	
Cash out	(51,019)
Cash in	277,322
Non-cashflow	
Deferred fees and accrued interest	56,615
Exchange rate movements	(1,121)
Book value as of 31.12.2021	**1,314,155**

The Bank uses Subordinated loans from ProCredit Holding in the amount of 21,000,000 EUR out of which:

- EUR 8,000,000 originated in 2015 with contractual maturity of ten years. On 24.02.2020 Amendment of the agreement was signed, for extension of the maturity for additional 5 years. Maturity date for this loan is 25.02.2030;
- EUR 2,000,000 originated in 2019 with contractual maturity of ten years. On 24.02.2020 Amendment of the agreement was signed, for extension of the maturity for additional 5 years. Maturity date for this loan is 25.02.2030;
- EUR 1,500,000 originated in 2020 with contractual maturity of ten years. Maturity date of this loan is 20.03.2030;
- EUR 3,000,000 originated in 2020 with contractual maturity of ten years. Maturity date for this loan is 25.09.2030;
- EUR 2,000,000 originated in 2020 with contractual maturity of ten years. Maturity date for this loan is 30.12.2030;
- EUR 2,500,000 originated in 2021 with contractual maturity of ten years. Maturity date for this loan is 27.03.2031;
- EUR 2,000,000 originated in 2021 with contractual maturity of ten years. Maturity date for this loan is 30.12.2031.

Bank includes subordinated debts as part of Total Capital in capital adequacy calculation in Tier II.

45) Other liabilities

in '000 MKD	31.12.2021	31.12.2020
Liabilities for goods and services	6,707	1,039
Lease liabilities	31,122	22,921
Others	22,757	8,537
Deferred income	2,221	1,641
Non-income tax liability	6,943	28,168
Total	**69,750**	**62,306**

Lease liabilities are recognised at the present value of the lease payments not yet made at that time. The lease payments are discounted at the lessee's incremental borrowing rate of interest. They are subsequently measured at amortised cost using the effective interest method.

46) Provisions

The amount of provisions represents the best possible estimate, taking into account estimation uncertainties regarding the amount to be paid or the probability of occurrence. The majority our obligations will be settled within a one-year period.

in '000 MKD	Unbilled services	Legal risks	Untaken vacation	Post-employment benefits	Contingent liabilities	Other provisions	Provisions
Book value as of 1.1.2021	**813**	**-**	**9,342**	**5,298**	**7,830**	**6,135**	**29,418**
Additions	1,047	-	7,787	465	4,794	-	**14,093**
Releases	-	-	-	-	(591)	-	**(591)**
Used	(813)	-	(9,342)	-	-	(5,667)	**(15,822)**
Change in credit risk	-	-	-	-	(3,554)	-	**(3,554)**
Exchange rate movements	-	-	-	-	1	-	**1**
Unwinding	-	-	-	132	-	-	**132**
Book Value as of 31.12.2021	**1,047**	**-**	**7,787**	**5,895**	**8,480**	**468**	**23,677**

in '000 MKD	Unbilled services	Legal risks	Untaken vacation	Post-employment benefits	Contingent liabilities	Other provisions	Provisions
Book value as of 1.1.2020	**928**	**1,481**	**7,682**	**4,030**	**4,555**	**1,037**	**19,713**
Additions	563	-	9,342	1,146	5,173	5,098	**21,322**
Releases	-	(1,481)	-	-	(1,913)	-	**(3,394)**
Used	(678)	-	(7,682)	-	-	-	**(8,360)**
Exchange rate movements	-	-	-	-	15	-	**15**
Unwinding	-	-	-	122	-	-	**122**
Book Value as of 31.12.2020	**813**	**-**	**9,342**	**5,298**	**7,830**	**6,135**	**29,418**

"Other provisions" includes accrued expenses related to services already received from Quipu for development of different kind of IT projects for which invoices will be provided after the current

reporting period (next year). Provisions for post-employment benefits include obligations for staff pensions. Provisions for contingent liabilities include provisions for financial and non-financial off-balance sheet transactions. Provisions for legal risks are mainly established for legal cases. Provisions for untaken vacation are established for employee vacation days still outstanding as of the reporting date. Provisions for unbilled services are established for services which have been provided but not yet invoiced as of the reporting date.

47) Maturities of assets and liabilities

In the following table, we show amounts for assets and liabilities that will be settled within twelve months (short term) and more than twelve months (long term) after the balance sheet date. Financial instruments without contractual maturities as well as cash and central bank balances are classified as short term. We classify the balance sheet items Property, plant and equipment, Intangible assets and Deferred tax assets/liabilities as long term.

in '000 MKD	Short-term	Long-term	31.12.2021	Short-term	Long-term	31.12.2020
Assets						
Cash	441,245	-	441,245	418,938	-	**418,938**
Central bank balances	6,565,414	-	6,565,414	5,513,512	-	**5,513,512**
Loans and advances to banks	2,913,378	-	2,913,378	2,366,344	-	**2,366,344**
Investment securities	754,427	-	754,427	360,407	20,730	**381,137**
Loans and advances to customers	13,764,406	14,225,484	27,989,890	11,622,269	14,132,430	**25,754,699**
Property, plant and equipment	-	685,858	685,858	-	720,676	**720,676**
Intangible assets	-	3,393	3,393	-	3,446	**3,446**
Current tax assets	8,742	-	8,742	-	-	**-**
Other assets	263,639	-	263,639	239,491	-	**239,491**
Total assets	**24,711,249**	**14,914,734**	**39,625,984**	**20,520,962**	**14,877,281**	**35,398,243**
Liabilities						
Liabilities to banks*	3,753,996	5,111,660	8,865,656	2,610,046	4,263,842	**6,873,888**
Liabilities to customers	22,100,997	4,056,540	26,157,537	20,056,891	4,332,732	**24,389,624**
Other liabilities	38,899	30,851	69,750	40,346	21,959	**62,306**
Provisions	20,415	3,263	23,677	24,121	5,298	**29,418**
Current tax liabilities	-	-	-	3,423	-	**3,423**
Deferred tax liabilities	-	15,026	15,026	-	10,056	**10,056**
Subordinated debt	19,988	1,294,167	1,314,155	14,407	1,017,951	**1,032,358**
with fixed interest rate	*19,988*	*1,294,167*	*1,314,155*	*14,407*	*1,017,951*	***1,032,358***
with variable interest rate	-	-	-	-	-	**-**
Total liabilities	**25,934,295**	**10,511,507**	**36,445,802**	**22,749,235**	**9,651,838**	**32,401,072**

*Previous year figures have been adapted to the current disclosure structure.

48) Fair value of financial instruments

The following table gives an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the Bank. The following table shows the distribution of fair values over the different fair value hierarchies:

in '000 MKD **31.12.2021**

Financial assets	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Central bank balances	AC	7,006,659	7,006,659	-	7,006,659	-
Loans and advances to banks	AC	2,913,378	2,913,378		2,913,378	-
Investment securities	FVOCI	754,427	754,427	86,347	668,080	-
Loans and advances to customers	AC	27,989,890	26,314,290	-	-	26,326,425
Other assets (Financial instruments)	AC	144,603	144,603		144,603	-

Financial liabilities	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Liabilities to banks	AC	8,865,656	8,576,684	-	2,825,897	5,750,787
Liabilities to customers	AC	26,157,537	26,136,291	-	18,918,154	7,218,137
Subordinated debt	AC	1,314,155	1,314,155	-	1,314,155	-

in '000 MKD **31.12.2020**

Financial assets	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Central bank balances	AC	5,932,450	5,932,450	-	5,932,450	-
Loans and advances to banks	AC	2,366,344	2,366,344		2,366,344	-
Investment securities	FVOCI	381,137	381,137	21,124	360,013	-
Loans and advances to customers	AC	25,754,699	25,637,934	-	-	25,637,934
Other assets (Financial instruments)	AC	149,872	149,872		149,872	-

Financial liabilities	Category	Carrying value	Fair value	Level 1	Level 2	Level 3
Liabilities to banks*	AC	6,873,889	6,655,020	-	2,176,489	4,478,531
Liabilities to customers	AC	24,389,624	24,357,098	-	16,146,458	8,210,640
Subordinated debt	AC	1,032,358	1,032,358	-	1,032,358	-

**Previous year presentation and figures have been adapted to the current disclosure structure.*

49) Equity

As at December 31, 2021 the shareholder structure was as follows:

	31.12.2021			31.12.2020		
Shareholder	Size of stake in %	Number of shares	Amount (in '000 MKD)	Size of stake in %	Number of shares	Amount (in '000 MKD)
Procredit Holding AG, Frankfurt am Main, Germany	100.00%	2,957,351	908,713	100.00%	2,957,351	908,713
Total Voting Capital	**100.00%**	**2,957,351**	**908,713**	**100.00%**	**2,957,351**	**908,713**

	Subscribed capital		Number of ordinary shares	
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**
As of 1 January	908,713	908,713	2,957,351	2,957,351
As of 31 December	**908,713**	**908,713**	**2,957,351**	**2,957,351**

The Bank's share capital consists of 2,957,351 ordinary shares. All shares have a par value of 5 EUR (2020: 5 EUR). All issued shares are fully paid.

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

Legal reserve

Under local statutory legislation, the Bank is required to set aside 5 percent of its net profit for the year in a legal reserve until the level of the reserve reaches 1/10 of the court registered capital. Until achieving the minimum required level the statutory reserve could only be used for loss recovery. When the legal reserve exceeds the minimum required level, and when all losses are covered, the legal reserve can also be used for distribution of dividends, based on a decision of the shareholders, but only if the amount of the dividends for the current business year has not reached the minimum for distribution as prescribed in the Trade Company Law or by the Bank's statute.

Dividends

in '000 MKD	**31.12.2021**	**31.12.2020**
Dividends paid	-	-

No dividend liabilities have been provided for at the end of the year in statement of financial position.

On 26 February 2021, the National Bank of Republic of North Macedonia ("NBRNS") temporarily limited the distribution and payment of dividends to the shareholders of the banks due to the uncertainty from the corona crisis. The measure is temporary and preventive, in order to further increase the resilience of the banking system and maintain stability, in conditions of uncertainty about the further course of the health crisis. This limitation was abolished on 3 August 2021.

The Bank has not declared any dividends after the balance sheet date.

Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

50) Capital management

Capital management is guided by the principle that the bank may not, at any time, incur greater risks than it is able to bear.

The principle of capital adequacy is monitored using different indicators for which early warning indicators and limits have been established. The indicators include, in addition to regulatory standards, a capital adequacy calculation in accordance with CRR requirements, a Tier 1 leverage ratio in accordance with CRR and a calculation of economic perspective.

The capital management framework of the Bank has the following objectives:

- Compliance with regulatory capital requirements (normative perspective)
- Ensuring adequate capitalisation in the economic perspective
- Compliance with the internally defined capital requirements and creation of a sufficient capital buffer to ensure that the bank is able to act

The capital management of ProCredit bank is governed by group policies and monitored on a monthly basis by the Group Risk Management Committee.

Capital adequacy in the economic perspective

Ensuring that the bank maintains sufficient capitalisation in the economic perspective at all times is a key element of ProCredit's group-wide risk management and capital management processes. The economic capital was comfortable at all times during the course of 2021. In the context of the economic perspective, the capital needs arising from bank's specific risk profile are compared with the available capital resources to assure that bank's capitalisation is at all times sufficient to match its risk profile. It is an ongoing process that raises group-wide awareness of our capital requirements and exposure to risks.

The methods the bank uses to calculate the amount of economic capital required to cover the different risks the bank is exposed to are based on statistical models, provided that appropriate models are available. The guiding principle for bank's calculations is that the bank is able to withstand strong shock scenarios.

When calculating the economic capital required to cover risk exposures the bank applies a one-year risk assessment horizon. The included material risks and the limits set for each risk reflect the specific risk profile of the bank and are based on the annually conducted risk inventory. The following risks are included in the calculation of the economic capital for the bank:

- Credit risk, comprising:

- Costumer credit risk
- Counterparty risk, including issuer risk

- Foreign currency risk
- Interest rate risk
- Operational risk

The bank's risk-taking potential (RTP), defined as the equity (net of intangibles and deferred tax assets) plus bank's subordinated debt, amounted to MKD 4,470 million as of the end of December 2021 (2020: MKD 4,011 million). For the period from December 2021, the Management set the Resources Available to Cover Risk (RAtCR) at an amount of MKD 2,682 million (2020: MKD 2,407 million). This reflects the acceptable risk amount for the bank; moreover, taking account for the conservative risk tolerance, it was set below the bank's RTP in order to ensure the existence of a sufficient security buffer. The increase in RTP is attributable to the higher level of own funds due to profit accrued and new subordinated debt.

The table below shows the distribution of RAtCR among the different risks and the limit utilisation. In the standard scenario, which is calculated with a 99.9% confidence level, the bank needs 72.7% of its RAtCR (2020: 64.9%) to cover its risk profile.

		31.12.2021	31.12.2020
in '000 MKD	Limit	Limit Used	Limit Used
Customer Credit & Counterparty Risk	1,699	1,439	1,281
Currency Risk	89	1	1
Interest rate Risk	447	390	156
Operational Risk	447	120	123
Total	**2,682**	**1,949**	**1,561**
Total limit used in %		**73%**	**65%**

Capital adequacy in the normative perspective

The normative perspective analyses whether regulatory and supervisory capital requirements have been met on a continuous basis. During the reporting period, all regulatory capital requirements were met at all times. The bank's regulatory capital ratios are presented below.

	Limit	31.12.2021	31.12.2020
Common equity Tier 1 capital ratio	≥ 10%	13.5%	11.8%
Tier 1 capital ratio	≥ 11%	13.5%	11.8%
Total capital ratio	**≥ 13%**	**19.1%**	**15.9%**

As end of 2021, the CET1 ratio and Tier 1 ratio were at the level of 13.5%. The total capital ratio by the end of the year was at the level of 19.1% as a result of accrued profit and new subordinated debt. The level of capitalisation of ProCredit bank is higher than the current policy and regulatory requirements.
With the implementation of CRR, an additional leverage ratio was introduced which is not risk-based. This is defined as the ratio of Tier 1 capital to unweighted on- and off-balance sheet risk exposures. The minimum is set at 5% and as end of December 2021 the bank reported confortable leverage ratio of 7.4%.

in '000 MKD	31.12.2021	31.12.2020
Equity	3,111	2,935
Asstets	42,017	37,429
Leverage ratio	**7.4%**	**7.8%**

51) Management of individual risks

In the year 2021, the processes and reporting of financial and operational risks were subject to regular yearly review.

The Bank places special emphasis on a general understanding of the factors driving risk and an on-going analysis and company-wide discussion of possible developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, understood completely, and described appropriately.

- **Credit risk**

Credit risk is defined as the risk that the party to a transaction cannot fulfil its contractual obligations, not in full or not on time. Within overall credit risk, we distinguish between customer credit risk, counterparty risk (including issuer risk) and country risk. Credit risk is the most significant risk faced by the Bank, and customer credit exposures account for the largest share of that risk.

in '000 MKD	31.12.2021	31.12.2020
Central bank balances	6,565,414	5,513,512
Loans and advances to banks	2,913,378	2,366,344
Investment securities	754,427	381,137
Loss allowances for Investment securities	(254)	(185)
Loans and advances to customers	*27,989,890*	*25,754,699*
Other assets (financial instruments)	*263,639*	*239,491*
Contingent liabilities	*5,695,344*	*5,309,794*
Loss allowances	*(458,681)*	*(421,314)*
Total	**43,723,157**	**39,143,478**

a) Customer credit risk

The key objectives of credit risk management are to achieve high loan portfolio quality, low risk concentrations within the loan portfolio and appropriate coverage of credit risks with loss allowances.

ProCredit bank serves a clear target group. It ranges from relatively small business clients with increasingly formalised structures to larger SMEs. For our lending operations, we apply the following principles, among others:

- Intensive analysis of the debt capacity and repayment capacity of borrowers, taking account for expected future cash flows
- Carefully documenting the risk assessments and the processes conducted during lending operations, such that the analyses performed can also be understood by expert third parties

- Strictly avoiding over indebtedness among credit clients
- Building a long-term relationship with the client, maintaining regular contact and documenting the development of the exposure in regular monitoring reports
- Strictly monitoring the repayment of credit exposures
- Customer-oriented, intensified loan management in the event of arrears
- Collecting collateral in the event of insolvency

The Bank's framework for managing customer credit risk is presented in the relevant policies and standards. The policies specify, among other things, the responsibilities for managing credit risk in the bank, the principles for the organisation of the lending business, the principals involved in lending operations, and the framework for the valuation of collateral for credit exposures. The standards contain detailed explanations of the bank's lending operations with business clients and private clients and of the range of credit offered. They also set forth the rules governing restructuring, loss allowances and write-offs. Thus, the policies and standards define risk-mitigating measures for the pre-disbursement phase (credit risk assessment) and the post-disbursement phase (e.g. regular monitoring of the financial situation, review of early warning indicators, and both intensified and problem loan management).

ProCredit Bank divides its credit exposures mainly into small and medium-sized business credit exposures and credit exposures to private clients. Depending on the client category to which the respective credit exposure is assigned, different credit risk assessment processes are applied. These processes differ from one another in terms of the following attributes: the degree of segregation of duties, type of information that provides the basis for the credit analysis, criteria for credit decisions, and collateral requirements. A strict separation of front and back office functions up to the management level is applied for risk-relevant operations.

The experience of the Bank has shown that a careful creditworthiness assessment is a necessary form of credit risk management. The credit decisions of the Bank are therefore based predominantly on an analysis of the client's financial situation and creditworthiness. Regular on-site visits to clients are performed to ensure an adequate consideration of their specific features and needs. Customer contact was intensified during the pandemic, supported as well by the increasing shift to virtual channels.

All credit decisions in the Bank are taken by a credit committee. Its members have approval limits that reflect their expertise and experience. Granting of medium credit exposures is carried out exclusively by credit committees at the Bank's head office.

The most important factor for credit committee decisions is a funding and collateral structure that is based on the client's needs and conditional on the respective risk profile. In general, high collateral requirements apply to our exposures in the SME sector; specifically: the lower the loan amount, the more detailed the documentation, the shorter the loan period, the longer the client's history with the bank, and the higher the account turnover with the bank, then the lower our collateral requirements will be.

The credit risk management policies limit the possibility for unsecured credit operations. Depending on the risk profile and the term of the exposure, loans may also be issued without being fully collateralised. As a general rule, credit exposures are covered with collateral security, mostly through immovable property.

As a rule, the valuation of collateral is based on assessments conducted by external, independent experts. In order to ensure that a reduction in the value of the collateral is detected at an early stage and appropriate measures can be taken, annual plausibility checks of collateral value are a fixed component of the monitoring process for exposures. The assessments are updated at regular intervals, with plausibility checks being carried out by specialised ProCredit bank staff.

Based on our collateralisation requirements, securing loans with mortgages is among the most important instruments for limiting credit risk. Although the largest share is concentrated in real estate, its distribution by individual purpose, location and associated market is diversified across regions and economic sectors, similar to the distribution of the loan portfolio of the Bank. In this context, the concentration risk via collateral is considered to be low.

	31.12.2021		31.12.2020	
in '000 MKD	Defaulted LP	Total LP	Defaulted LP	Total LP
Loan portfolio	517,850	28,438,207	365,687	26,165,433
Loss allowance	(243,621)	(448,318)	(224,737)	(410,734)
Coverage ratio excluding collateral	47.04%	1.58%	61.46%	1.57%
Loan collateral	408,095	20,603,713	290,589	18,653,339
Coverage ratio including collateral	126%	74%	141%	73%

The early detection of increases in credit risk at the level of individual credit exposures is incorporated into all lending-related processes, resulting in rapid assessment of the degree of financial difficulty faced by clients.

Moreover, the bank has developed indicators for the early identification of risks based on quantitative and qualitative risk features. These include, but are not limited to, declining account turnover or volume, high usage of granted credit lines and overdrafts over a longer period of time, and arrears.

Regular recording and analysis of these early warning indicators helps to manage the portfolio, identify potential default risks at an early stage and take the required measures to avoid a significant increase in credit risk. Reports on the affected portfolio are regularly given to the branch manager, the bank's head office and in aggregated form to ProCredit Holding.

Exceptional events, which could have an impact on large areas of the loan portfolio (common risk factors) are analysed and discussed at group and bank level. This can lead to the imposition of limits on risk exposures towards certain groups of clients, e.g. in specific sectors of the economy or geographical regions.

A priority in the assessment of exceptional risk events is the classification of the ongoing impact from the COVID-19 pandemic. At the beginning of the pandemic, the Bank's focus was on providing direct support measures to affected clients and immediately assessing the potential increase in risk for certain segments of the loan portfolio. Our emphasis has shifted during the course of the year from making an initial assessment of the impact of the crisis and taking preventive measures, with the focus now on integration of regularly loan monitoring. This applies in particular to exposures where we continue to see increased risks of possible pandemic-related effects on the businesses, or clients who made use of moratoria. The greater we consider those

risks to be, the more intensive the monitoring. Intensification involves adjusting the frequency and requirements of monitoring in accordance with a portfolio classification administered by the Bank on the basis of the potential risk from pandemic effects. In this process, consideration was given to the impact of the pandemic on the economic sector as well as the liquidity and earnings situation of the company. There was also an intensified monitoring process for new loan disbursements and their subsequent performance. As a result of intensified loan portfolio monitoring, risk classification downgrades were made where needed.

When we offered our clients moratoria, it was only as a temporary measure to address short-term liquidity problems. Therefore, the share of the loan portfolio in moratorium was already below 1% at the end of 2020, and 0% by the end of 2021. Applying these moratoria did not in itself automatically lead to forbearance measures or allocation to a worsened risk class. After the moratoria expired, restructuring measures were taken if the borrower's individual situation necessitated it. This was mainly observed in the first half of the year. Towards the end of the year, we see a continuous reduction of the restructured portfolio.

Based on our continuous monitoring in 2021, we assess the impact of the COVID-19 pandemic on our loan portfolio thus far to be low. This is also reflected in observations regarding the quality indicators implemented for the loan portfolio.

On the basis of asset quality indicators, the loan portfolio is divided into the categories: performing, underperforming and defaulted. The process of assigning exposures to these categories is based on an exposure being past due, a risk classification system, and additional risk characteristics; these include the initiation of bankruptcy proceedings or similar court procedures, restructurings or collateral liquidations by other banks. In addition, other factors, which indicate a significant deterioration of the economic situation of the client, can also play a role. The portfolio indicators allow for a clear overview of the quality of the Bank's portfolio and represent one of the most important tools for the credit risk management process.

- The performing loan portfolio shows no signs of a potential risk increase. Although some exposures show early warning signals, these may not necessarily result in a risk increase being determined.

- The underperforming loan portfolio comprises exposures with elevated credit risk. This can be caused by temporary payment difficulties (30-90 days), restructuring or by a deterioration in the financial circumstances of clients, as expressed through an adjustment of the risk classification. Nevertheless, the bank still assesses full repayment of the exposure to be possible, e.g. after restructuring.

- The defaulted loan portfolio comprises all exposures in default, pursuant to the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178), that have shown lasting payment difficulties (over 90 days) or other indications. These include, among other factors, when the borrower is highly unlikely to meet their loan obligations to the bank in full or when insolvency proceedings have been initiated. Further details are provided below.

The indicators and the associated internal processes have been defined in line with the requirements set by international regulatory authorities and are continuously reviewed and adjusted accordingly. For example, as of 31 December 2021 adjustments were made regarding the counting of days past due as a criterion for determining default and the indicators for

unlikelihood of settling liabilities. These changes were implemented as part of introducing the amended definition of default.

Once a higher risk of default is detected for a credit exposure, it is placed under intensified management. This centres around close communication with the client, identification of the source of higher credit default risk and close monitoring of business activities. Decisions on measures to reduce the credit default risk for individual credit exposures are taken by the authorised decision-making bodies for the credit exposures in question. In addition, specialised recovery officers may be called in to support the intensified management of the credit exposure.

One of the first steps in managing the exposure is to determine the economic and financial situation of the client, as this is the most important basis for decisions on whether or not the exposure can be restructured. The aim is to take such decisions at an early stage, while the chances of stabilisation are high and before the exposure enters an advanced phase of payment delay.

When a credit exposure is classified as defaulted, specialised officers take over responsibility for dealings with these loans. These officers are supported by specialists from the legal department. Collateral is sold through liquidation to a third party at the highest possible price, typically via public auction. The majority of the collateral sold consists of tangible assets such as land or buildings.

in '000 MKD	31.12.2021	31.12.2020
Real Estate	70,370	111,405
Other	627	7,310
Total	**70,998**	**118,715**

- **Loss allowances**

The expected credit loss (ECL) model pursuant to IFRS 9 is the central element of the approach to quantifying loss allowances for both on- and off-balance sheet financial instruments and is continually optimised. The calculated loss allowances are determined based on the expected credit losses for several future default scenarios. This represents the combined sum of the probability-weighted results from the scenarios. ECL estimates are based on reliable information about past events, current conditions and projections of future economic conditions. A detailed description of the model specifications is provided below.

Three-stage approach
Loans and advances to customers are broken down into the three stages described below, based on the development of credit risk since initial recognition. A specific methodology is applied for each stage in order to determine impairment. During the term of an exposure, movement is possible between the stages.

- *Stage 1* comprises exposures for which credit risk has not significantly increased since initial recognition, and for which there is thus no indication of a trigger for allocation to Stage 2 or Stage 3; this also includes exposures which have been re-assigned to Stage 1 from other stages. Generally, all exposures are allocated to Stage 1 upon initial recognition, with the exception of those categorised as POCI (Purchased or Originated Credit Impaired). For Stage 1 exposures,

the expected credit losses arising from possible default events within a period of up to 12 months following the reporting date are recognised in expenses. For receivables with a remaining term of less than 12 months, the shorter contractual maturity is applied.

- *Stage 2* comprises exposures for which credit risk has significantly increased since initial recognition, but for which there is no objective indication of impairment; this also includes exposures which have been re-assigned to Stage 2 from Stage 3. Loss allowances are established in an amount equivalent to the expected credit losses over the entire remaining maturity.

- *Stage 3* includes all defaulted exposures (except POCI); i.e. as of the reporting date, there is both a significant increase in credit risk and objective indications of impairment. The respective calculation of loss allowances is performed based on the expected credit losses over the entire remaining maturity considering 100% probability of default.

- POCI exposures refer to defaulted exposures; however, they are recorded separately and are differentiated from other exposures in Stage 3 in the recognition of loss allowances.

Calculation of expected credit loss (ECL)

The following parameters are used in the calculation of expected credit loss:

- Exposure at default (EAD):

EAD is the expected exposure amount at the time of a loan default; it is derived from the currently outstanding receivable from the customer and possible future changes under the applicable contractual conditions. Thus, the EAD consists of the expected exposures (including credit risk from off-balance sheet business) at the time of default. For exposures with regular repayment plans, the modelled EAD is adjusted for the expected possibility of early repayment based on historical observations and on scenarios for the development of the economic environment and associated future forecasts. For potential exposures that may arise in the future from the utilisation of existing credit commitments, such as credit lines or overdraft facilities, conversion factors are estimated based on empirical analysis of historical data; for payment guarantees and letters of credit, a conversion factor of 100% or 50%, respectively, is set on the basis of professional judgment.

- Probability of default (PD):

The probability of a loan default within a certain period of time is derived from historical default events. These data include the time, type and amount of default as well as information about the characteristics of the customer from our internal risk classification system. The parameters are country-specific and differentiate the risk levels of exposures according to the customer segments defined at bank level. The ProCredit group uses statistical models to analyse the collected data and make forecasts for the expected PD based on scenarios for the development of the economic environment. In addition, the PDs over the remaining lifetime of an exposure are estimated.

- Loss given default (LGD):

The expected LGD is based on historical data about recoveries obtained from defaulted customers. LGDs are calculated as discounted cash flows, taking into account the cost of

recovery and the size of the credit exposure. Estimated LGDs are modelled as forward-looking forecasts that account for the assumed scenarios about the development of the economic environment.

Input data for the assessment of credit risk parameters are based on multi-year data histories for our borrowers. The influence of customer-specific risk characteristics and macroeconomic factors on the selected parameters is determined through regression analysis. The relevant macroeconomic factors (GDP growth, inflation rate and unemployment rate) are selected on the basis of their statistical significance and economic relevance. In order to establish the ECL parameters, a probability-weighted average value is calculated based on the various scenarios for the macroeconomic factors.

The establishment of loss allowances for the 2021 financial year was impacted by the COVID-19 pandemic. In anticipation of the continued increased uncertainty due to the COVID-19 pandemic, also in the longer term, supplementary adjustments have been made to the fundamental macroeconomic factors used to determine the ECL model parameters. These adjustments were based on the newest IMF World Economic Outlook Database macroeconomic forecasts, taking account for the longer-term outlook.

The sensitivity of our loss allowance is analysed in terms of the influence of relevant macroeconomic factors. GDP growth is the main macroeconomic factor which drives change to the loss allowance on loans to customers, whereas the effect of the other economic variables in negligible. The following table presents loss allowances on loans to customers following a one-percent shift in GDP growth.

	31.12.2021		
in '000 MKD	Loss allowance GDP +1%	Loss allowance	Loss allowance GDP -1%
Total	413,640	456,743	506,348

Changes in the above assumptions can lead to changes in the calculated loss allowances over time. The ProCredit group acknowledges that discretionary decisions of the Management and estimation uncertainties can have a significant impact on the establishment of loss allowances for collectively and individually assessed exposures. Such discretion is based on the applied definition of default, the approach to determining a significant increase in credit risk (SICR) and the selected macroeconomic factors.

Due to the granting of COVID-19-related moratoria on loan repayments for a certain portion of the loan portfolio, a supplementary adjustment of PD model parameters was made for 2021. The country-specific PDs are assigned to the scale for internal risk classification. This results in a breakdown of the loan portfolio into the presented PD intervals. Exposures assigned to risk classes 6 to 7 correspond to the underperforming category and are considered to have higher risk and therefore mostly have PDs over 5%. The risk classifications are assigned according to an internal evaluation process for the current repayment capacity of the credit exposure, based on quantitative as well as qualitative factors.

31.12.2021			
Loan portfolio	**12m PD range**	**Loan portfolio in '000 MKD**	**Loan portfolio in %**
Risk classes: 1-5: Performing	0-1%	3,850	0.01%
	1-3%	18,979,981	66.74%
	3-5%	5,322,019	18.71%
Risk classes 6-7: Underperforming	5-10%	423,987	1.49%
	10<100%	45,622	0.16%
Risk class 8: Default	100%	437,736	1.54%
Wthout risk class*		3,225,012	11.34%
Gross outstanding amount		**28,438,207**	**100.00%**

31.12.2020			
Loan portfolio	**12m PD range**	**Loan portfolio in '000 MKD**	**Loan portfolio in %**
Risk classes: 1-5: Performing	0-1%	0	0.00%
	1-3%	18,618,691	71.16%
	3-5%	4,858,094	18.57%
Risk classes 6-7: Underperforming	5-10%	311,433	1.19%
	10<100%	53,359	0.20%
Risk class 8: Default	100%	243,455	0.93%
Wthout risk class*		2,080,401	7.95%
Gross outstanding amount		**26,165,433**	**100.00%**

*Loans to private customers and business customers with a credit volume of less than EUR 50,000 are not assessed with an internal risk classification.

Significant increase in credit risk (SICR)

Quantitative and qualitative information is used to determine whether there is a significant increase in credit risk.

The quantitative test for SICR consists of a comparison between the expected PD over the remaining lifetime as of the reporting date and the expected PD over the corresponding time period at initial recognition. A significant increase in credit risk is deemed to exists if the difference between the PDs exceeds a pre-defined threshold of 2.5. In this case, the respective financial instrument is transferred from Stage 1 to Stage 2. Conversely, a transfer from Stage 2 to Stage 1 is possible once the associated credit risk is no longer significantly elevated.In addition, qualitative criteria are used for SICR decisions.

A transfer from Stage 1 to Stage 2 is made when one of the following criteria is met:

- Contractual payments are past due by more than 30 days but not more than 90 days;
- Classification of the customer as "restructured" (forbearance) pursuant to internal policies (adjustment of contractually agreed conditions);

Impaired credit exposures

If a credit exposure is deemed to be impaired, it is transferred to Stage 3 accordingly. The definition of impairment according to IFRS 9 corresponds to the definition used for the Defaulted portfolio in internal risk management, and thus also the regulatory definition of default (Regulation (EU) No. 575/2013 under (EU) 2019/876 (CRR II), Art. 178). This default definition is applied to all exposures which are part of the loan portfolio of the Bank. An exposure is considered to be impaired if at least one of the criteria of the default definition is met and the expected cash flows have been negatively impacted to such an extent that full repayment of the receivable can no longer be assumed.

When determining provisions in Stage 3, a distinction is drawn between significant individually impaired and insignificant impaired credit exposures; the threshold is EUR 150,000. For significant exposures with indications of impairment, an individual assessment is performed to determine loss allowances, taking account for probability-weighted expected inflows in various scenarios, including collateral liquidation. For individually insignificant exposures, loss allowances are determined using parameters for the collective assessment of credit risk.

Returning an exposure from Stage 3 to a lower stage is possible if the customer can settle outstanding debts in full without recourse to collateral realisation. No migration between stages is possible for POCI exposures.

Purchase or Originated Credit Impaired (POCI) exposures

The bank has separate rules for POCI (Purchased or Originated Credit Impaired) exposures. Within our business model, the acquisition of impaired exposures is not permitted. Accordingly,

In line with IFRS guidelines, the Bank performs separate recognition of POCI (Purchased or Originated Credit Impaired) exposures. Within our business model, the acquisition of impaired exposures is not permitted. Accordingly, POCI exposures can only arise in the course of a new negotiation through significant modification of the contractually agreed cash flows. For POCI exposures, no allowances for impairment are made at the time of initial recognition. In subsequent periods, all changes with regard to the expected losses over the remaining maturity period (lifetime ECL) are recognised as an expense in the income statement and reported accordingly as loss allowances for these exposures.

Changes to contractual terms (modifications)

Changes to the originally agreed contractual conditions of an exposure are possible, in particular with the aim of improving the prospects of repayment and, if possible, avoiding default, foreclosure or the realisation of collateral. The bank uses qualitative and quantitative factors to determine the existence of a substantial modification of contractual conditions. As a quantitative factor, the net present value of cash flows is determined in order to assess the changed conditions of an exposure (net present value test). In the event of a substantial change, the original contract is derecognised and a new exposure is recognised at the fair value at the time of modification. In the case of a non-substantial change, the gain or loss from modification is recognised in "Change in loss allowances".

Write off

When a loan is uncollectible, it is written off against the corresponding loss allowance, which has been set aside, provided there is no justified expectation of repayment. The direct and indirect costs of actively managing credit exposures that have not been written off must be in proportion to the size of the outstanding exposure.

For exposures of any size, the banks carry out an individual assessment of the justified feasibility of repayments. Based on the assessment, the bank may decide to write off the exposure or continue to actively manage the exposure in order to allow for further repayment of the loan. Portions of written-off exposures are still subject to enforcement activities.

	31.12.2021			
In '000 MKD	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**
Written-off exposures in current year subject to enforcement activity	-	-	75,739	-

The following table presents gross and net exposures, broken down according to internal risk classification and economic sector and by stage.

In '000 MKD		31.12.2021				
Loan portfolio		**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing	1	3,850	-	-	-	**3,850**
	2	1,841,042	-	-	-	**1,841,042**
	3	5,346,455	-	-	-	**5,346,455**
	4	11,792,483	-	-	-	**11,792,483**
	5	5,318,791	3,229	-	-	**5,322,019**
Underperforming	6	80,556	343,431	-	-	**423,987**
	7	-	45,622	-	-	**45,622**
Credit-impaired	8	-	-	435,908	1,827	**437,736**
Non-rated exposures		3,052,122	89,781	83,110	-	**3,225,012**
Gross outstanding amount		**27,435,299**	**482,063**	**519,018**	**1,827**	**28,438,207**

In '000 MKD		31.12.2020				
Loan portfolio		**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Performing	1	-	-	-	-	**-**
	2	2,056,123	2,670	-	-	**2,058,793**
	3	6,486,678	6,719	-	-	**6,493,397**
	4	10,044,509	21,993	-	-	**10,066,502**
	5	4,852,405	5,689	-	-	**4,858,094**
Underperforming	6	62,150	249,283	-	-	**311,433**
	7	4,542	48,816	-	-	**53,359**
Credit-impaired	8	-	-	241,612	1,843	**243,455**
Non-rated exposures		1,922,056	37,725	120,621	-	**2,080,401**
Gross outstanding amount		**25,428,463**	**372,894**	**362,233**	**1,843**	**26,165,433**

in '000 MKD	Business loans					Private loans			
As of 31 December 2021	**Wholesale and retail trade**	**Agriculture, forestry and fishing**	**Production**	**Transportation and storage**	**Other economic activities**	**Housing**	**Investment loans and OVDs**	**Others**	**Total**
Stage 1									
Gross outstanding amount	8,894,482	1,881,938	5,942,497	1,675,218	6,782,722	1,486,244	716,542	55,656	**27,435,299**
Loss allowance for loans to customers	(37,858)	(21,187)	(30,301)	(9,632)	(32,236)	(26,244)	(19,368)	(914)	**(177,740)**
Net outstanding amount	8,856,625	1,860,751	5,912,197	1,665,585	6,750,486	1,460,000	697,174	54,741	**27,257,559**
Stage 2									
Gross outstanding amount	123,117	4,557	59,292	96,202	176,837	13,576	7,307	1,174	**482,063**
Loss allowance for loans to customers	(7,719)	(181)	(3,124)	(5,536)	(9,573)	(2,151)	(531)	(25)	**(28,840)**
Net outstanding amount	115,398	4,377	56,168	90,666	167,264	11,425	6,776	1,148	**453,223**
Stage 3									
Gross outstanding amount	38,526	16,007	303,930	58,221	74,166	16,979	10,506	683	**519,018**
Loss allowance for loans to customers	(18,044)	(8,014)	(127,888)	(26,947)	(38,298)	(14,900)	(7,173)	(400)	**(241,664)**
Net outstanding amount	20,482	7,993	176,042	31,273	35,868	2,079	3,333	283	**277,354**
POCI									
Gross outstanding amount	1,590	68	-	169	-	-	-	-	**1,827**
Loss allowance for loans to customers	(74)	-	-	-	-	-	-	-	**(74)**
Net outstanding amount	1,516	68	-	169	-	-	-	-	**1,753**

in '000 MKD As of 31 December 2020	Business loans					Private loans			Total
	Wholesale and retail trade	Agriculture, forestry and fishing	Production	Transportation and storage	Other economic activities	Housing	Investment loans and OVDs	Others	
Stage 1									
Gross outstanding amount	7,877,053	1,773,051	5,724,297	1,869,848	6,457,797	1,229,838	452,906	43,672	**25,428,462**
Loss allowance for loans to customers	(38,701)	(17,775)	(31,081)	(9,757)	(32,952)	(24,376)	(13,047)	(726)	**(168,415)**
Net outstanding amount	7,838,352	1,755,276	5,693,216	1,860,091	6,424,845	1,205,462	439,859	42,946	**25,260,047**
Stage 2									
Gross outstanding amount	74,072	7,760	112,953	99,193	60,513	14,855	3,030	519	**372,895**
Loss allowance for loans to customers	(6,007)	(797)	(4,159)	(4,649)	(2,447)	(2,008)	(256)	(9)	**(20,332)**
Net outstanding amount	68,065	6,963	108,794	94,544	58,066	12,847	2,774	510	**352,563**
Stage 3									
Gross outstanding amount	113,960	40,276	122,310	27,570	24,039	27,822	5,612	643	**362,232**
Loss allowance for loans to customers	(69,809)	(29,976)	(73,394)	(12,091)	(12,334)	(19,751)	(4,009)	(500)	**(221,864)**
Net outstanding amount	44,151	10,300	48,916	15,479	11,705	8,071	1,603	143	**140,368**
POCI									
Gross outstanding amount	1,843	-	-	-	-	-	-	-	**1,843**
Loss allowance for loans to customers	(123)	-	-	-	-	-	-	-	**(123)**
Net outstanding amount	1,720	-	-	-	-	-	-	-	**1,720**

Credit risk at the portfolio level is assessed on a monthly basis and, if necessary, more frequently. This includes an analysis of portfolio structure and quality, restructured exposures, write-offs, coverage level and concentration risk. Concentration risk in the loan portfolio is effectively limited by a high degree of diversification (lending in particular to small and medium-sized businesses in various economic sectors and to private clients.

in '000 MKD As of 31 December 2021	EUR < 50,000	EUR 50,000 - 250,000	EUR > 250,000	Total
Business loans	**2,164,504**	**9,050,713**	**14,914,324**	**26,129,540**
Wholesale and retail trade	589,631	3,316,140	5,151,945	9,057,715
Agriculture, forestry and fishing	566,058	568,302	768,211	1,902,571
Production	268,339	2,001,120	4,036,261	6,305,719
Transportation and storage	327,486	935,284	567,040	1,829,810
Other economic activities	412,991	2,229,867	4,390,868	7,033,725
Private loans	**1,459,602**	**798,305**	**50,759**	**2,308,666**
Housing	707,402	758,638	50,759	1,516,799
Investment loans	694,687	39,667	0.00	734,354
Others	57,513	0.00	0.00	57,513
Customer loan portfolio (gross)	**3,624,106**	**9,849,018**	**14,965,083**	**28,438,207**

in '000 MKD As of 31 December 2020	EUR < 50,000	EUR 50,000 - 250,000	EUR > 250,000	Total
Business loans	**1,986,916**	**8,173,645**	**14,225,975**	**24,386,536**
Wholesale and retail trade	535,077	3,003,798	4,528,055	8,066,930
Agriculture, forestry and fishing	474,930	494,976	851,181	1,821,087
Production	257,710	1,723,428	3,978,422	5,959,560
Transportation and storage	325,911	934,041	736,659	1,996,611
Other economic activities	393,288	2,017,402	4,131,658	6,542,348
Private loans	**1,168,739**	**572,183**	**37,975**	**1,778,897**
Housing	668,744	565,796	37,975	1,272,515
Investment loans	455,161	6,387	-	461,548
Others	44,834	-	-	44,834
Customer loan portfolio (gross)	**3,155,655**	**8,745,828**	**14,263,950**	**26,165,433**

In addition, the Bank limits the concentration risk of the portfolios by means of the following requirements: Large credit exposures (those exceeding 10% of regulatory capital) require the approval of the bank's Supervisory Board and the Group Risk Management Committee. No large credit exposure may exceed 25% of regulatory capital of the bank, and the sum of all large credit exposures of the bank may not exceed 150% of its regulatory capital.

The quality of the loan portfolio in all client categories is monitored by credit control units on bank level. They assess the quality of the credit analysis as well as compliance with internal procedures and identify signs of fraudulent activity. These teams comprise experienced staff who conduct on-site visits to customers and also systematically screen the portfolio for irregularities.

Continuous training of the staff ensures that credit risk is properly evaluated whenever a loan is issued, and that credit exposures are closely observed throughout their lifetime and, if necessary, that appropriate measures are taken in a timely manner. That is why the quality of the ProCredit bank's loan portfolio is higher than the sector average in the country, even in times when recovering outstanding loan repayments is more difficult

- **Counterparty and issuer risk**

ProCredit bank defines counterparty risk, including issuer risk, as the risk that a counterparty/issuer cannot fulfil its contractual obligations at all, not in full or not on time. Counterparty risk mainly arises from keeping highly liquid assets for the purpose of managing liquidity. There is also structural exposure towards Central Bank in the form of mandatory reserves.

Typically, bank's counterparties are the central bank, central government and commercial banks. The main types of exposure are account balances, short-term deposits, and highly liquid securities.

Counterparty risk is managed according to the principle that bank's liquidity must be placed securely and, to the greatest extent possible, in a diversified manner. While the bank tries to generate some income from these assets, the overriding objective is to ensure secure placement and timely availability, i.e. risk considerations predominate. For this reason, the bank only works with carefully selected reliable banks that usually have a high credit rating, local Banks with a good reputation and financial standing, typically places money for short terms (typically up to three months) and uses only a very limited number of simple financial instruments.

Issuer risk is likewise managed according to these principles. ProCredit bank is prohibited from engaging in speculative trading. Liquidity in domestic currency is predominantly invested in central bank papers or sovereign bonds issued by the local government.

The position loans and advances to banks is primarily related to current account balances and deposits in low risk OECD countries. As of 2021, the largest share of the balances on this position are placed in DZ Bank, UniCredit Bank Austria AG, ProCredit Bank AG Germany, and Pax-bank. Fitch Ratings assigned these banks with the following long term issuer default rating: DZ Bank long term issuer default rating of AA- (2020: AA-), ProCredit Bank Germany long term issuer default rating of BBB (2020: BBB), and Pax-bank AA- (2020: AA-). UniCredit Bank Austria AG is not rated by Fitch. UniCredit Bank's rating according to Standard and Poor's rating agency was BBB+ as end of 2021 (2020: BBB+). Smaller amount of the position loans and advances to banks is placed in domestic banks, which are not assigned any rating.

in '000 MKD	31.12.2021	31.12.2020
Central bank balances	6.058,387	5,042,175
Mandatory reserve	*2,491,479*	*2,054,231*
Other balances with central banks	*3,566,908*	*2,987,945*
Loss allowances for central bank balances	*(1,638)*	*(1,427)*
Loans and advances to banks	2,913,385	2,366,350
Loss allowances for loans and advances to banks	*(7)*	*(6)*
Investment securities	508,665	381,137
Loss allowances for Investment securities (recognized in OCI)	(241)	(185)
Total	**9,478,551**	**7,788,044**

The creditworthiness of another financial asset, i.e. a counterparty, is impaired if one or more events with an adverse effect on the expected future cash flows have occurred. Examples of such events are a breach of contract (such as default or overdue payment), significant financial difficulties of the counterparty, or a significant deterioration of the external rating. Due to the careful selection of the counterparties, as of 31 December 2021 none of the positions shown was past due nor showed any signs of impairment. The bank has established provisions in accordance with IFRS 9 requirements.

The exposure towards counterparties and issuers is managed on the basis of a limit system, as is the case for customer credit risk. ProCredit bank conclude transactions only with counterparties that have previously been carefully analysed and for which a limit has been approved by bank's ALCO. The total limit for banks or banking groups is also set, with a distinction being made between banks and banking groups based in an OECD country and those outside of the OECD.

As a general rule, the Bank approves limits of up to 10% of its regulatory capital on exposures to banking groups whose ultimate parent is headquartered in non-OECD countries and up to 25% on banking groups whose ultimate parent is headquartered in OECD countries. Higher limits are subject to approval by the Group ALCO/RMC.

- **Foreign currency risk**

We define foreign currency risk as the risk that the institution as a whole incurs losses due to exchange rate fluctuations or that foreign currency risk can have adverse effects on income and can lead to a decline in regulatory capital ratios.

Results are impacted negatively when the volume of bank's assets and liabilities denominated in foreign currencies do not match and the exchange rates move unfavourably. The key risk indicator that captures the balance sheet discrepancy for each currency is the open currency position (OCP). Limits for OCP are set at bank level.

Bank's Treasury Unit is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The Treasury Unit manages Bank's currency positions on a daily basis. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. Bank's foreign currency exposure is monitored and controlled on a daily basis by Treasury back office and risk management function. The Bank aims to close currency positions and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Bank has established two levels of control: reporting triggers and limits. In cases where the positions cannot be brought back below 5% of the regulatory capital for a single currency, or 7.5% for the aggregate of all currencies, the Bank's ALCO has to be informed and appropriate measures taken. This mechanism helps to ensure that the Bank's total OCP does not exceed 10% of regulatory capital. Exeptions from the limit or strategic positions are subject to approval by the Group ALCO or Risk Management Committee.

Facts and figures concerning foreign currency risk

The following table shows the distribution of the Bank's balance sheet items across its material operating currencies, which are USD and EUR. Indexed loans and deposits are treated as foreign currency items for this purpose.

in '000 MKD	EUR	USD	MKD	Other currencies	Total
As at December 31, 2021					
Assets					
Cash and cash equivalents	2,957,251	-	4,049,408	-	7,006,659
Loans and advances to banks	2,599,454	210,017	25	103,882	2,913,378
Investment securities	86,170	-	668,257	-	754,427
Loans and advances to customers	15,594,913	18,932	12,376,045	-	27,989,890
Other financial assets	10,706	11,889	122,005	3	144,603
Total assets	**21,248,494**	**240,838**	**17,215,740**	**103,885**	**38,808,957**
Liabilities					
Liabilities to banks	8,840,364	955	21,461	2,876	8,865,656
Liabilities to customers	10,981,045	233,478	14,848,124	94,890	26,157,537
Other liabilities	21,712	21	48,016	-	69,750
Subordinated debt	1,314,155	-	-	-	1,314,155
Total liabilities	**21,157,276**	**234,454**	**14,917,601**	**97,766**	**36,407,098**
Net position	**91,218**	**6,384**	**2,298,139**	**6,119**	**2,401,859**
Contingent commitments	**1,094,132**	**27,579**	**4,573,632**	**-**	**5,695,344**

in '000 MKD	EUR	USD	MKD	Other currencies	Total
As at December 31, 2020					
Assets					
Cash and cash equivalents	1,862,668	-	4,069,782	-	5,932,450
Loans and advances to banks	2,095,109	191,685	128	79,422	2,366,344
Investment securities	21,124	-	360,013	-	381,137
Loans and advances to customers	14,120,044	31,403	11,603,252	-	25,754,699
Other financial assets	11,213	10,645	128,011	3	149,872
Total assets	**18,110,158**	**233,733**	**16,161,186**	**79,425**	**34,584,502**
Liabilities					
Liabilities to banks	6,835,771	-	35,370	2,748	6,873,889
Liabilities to customers	10,206,225	226,300	13,879,790	77,309	24,389,624
Other liabilities	8,501	23	53,782	-	62,306
Subordinated debt	1,032,358	-	-	-	1,032,358
Total liabilities	**18,082,855**	**226,323**	**13,968,942**	**80,057**	**32,358,177**
Net position	**27,303**	**7,410**	**2,192,244**	**(632)**	**2,226,325**
Contingent commitments	**1,017,082**	**69,324**	**4,223,387**	**-**	**5,309,794**

To assess the Bank's currency risk, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period is determined to be one year and the look-back period is eight years. The results are shown in the following table:

in '000 MKD **As of December 31, 2021**	**99% confidence**
Maximum loss (VaR)	(952)
Average loss in case confidence interval is exceeded	(1,167)

in '000 MKD **As of December 31, 2020**	**99% confidence**
Maximum loss (VaR)	(946)
Average loss in case confidence interval is exceeded	(974)

- **Interest rate risk**

Interest rate risk is the risk of incurring losses due to changes in market interest rates and primarily arises from differences between the repricing maturities of assets and liabilities. The monitoring, limiting and managing of interest rate risk is based on economic value impact and P&L-oriented indicators.

The assets and liabilities are distributed across time buckets according to the terms of the underlying contracts. Interest-bearing sight deposits and savings accounts with unspecified contractual fixed interest are included in the gap analysis according to country- and currency-specific analyses of historical data. In addition, regularly updated assumptions on planned business developments are used to calculate the P&L indicator.

The bank assumes a parallel shift of the interest rate curve. The magnitude of the interest rate shock is essentially determined on the basis of a historical analysis of the corresponding yield curves. For each currency, only the parallel shift scenario that results in a loss is included in the indicator. Limits are set in relation to regulatory capital for the economic value impact and in relation to the forecast net interest income for the P&L effect.

Interest rate risk is quantified and limited on the basis of economic value impact and on the basis of the 12-month P&L effect.

in '000 MKD	31.12.2021		31.12.2020*	
	Economic Value Impact	12 month P&L-Effect	Economic Value Impact	12 month P&L-Effect
Total	-389,555	-33,975	-88,482	-41,207

* The risk values as of 31.12.2020 have been recalculated based on the model updated in 2021

In 2021 the economic value impact increased to MKD 389 million from MKD 88 million at end of 2020. The 12-month P&L effect equaled to MKD 34 million. The increased economic value impact is attributed to grater mismatch between assets and liabilities with longer maturities (above 5 years), mostly a result of new funding and new subordinated debt.

- **Liquidity risk**

Liquidity and funding risk addresses the ProCredit bank's short- and long-term ability to meet its financial obligations in a complete and timely manner, even in stress situations.

The bank assesses short-term liquidity risk on the basis of a liquidity gap analysis, among other instruments, and the bank monitors this risk using numerous indicators. These include a 30-day liquidity indicator (Sufficient Liquidity Indicator, SLI), a survival period, and the Liquidity Coverage Ratio, LCR as an early warning indicator. The SLI measures whether institutions have sufficient liquidity in relation to the expected inflows and outflows of funds in the next 30 days. The survival period is the timeframe during which the bank is able to fulfil all payment obligations, despite reduced liquidity inflows and elevated outflows. The calculation applies outflows derived from historical analyses of deposit movements in the bank. LCR indicates whether the bank has sufficient liquidity to cover the net outflows expected in the next 30 days, even in the event of a specified severe economic shock scenario.

Market-wide, institution-specific (idiosyncratic), combined and longer-term stress tests are conducted monthly and ad hoc to make sure that the bank keeps sufficient liquid funds to meet its obligations, even in difficult times. Moreover, the bank has a contingency plan, containing early warning indicators, responsibilities and measures that may be taken in case of liquidity crisis. If unexpected circumstances arise and the bank proves not to have sufficient liquid funds, the ProCredit group has also developed a liquidity contingency plan and ProCredit Holding would step in as a "lender of last resort". ProCredit Holding keeps an adequate liquidity reserve available for this purpose. The amount of the liquidity reserve is determined on the basis of group stress tests and monitored on a regular basis.

Liquidity is managed on a daily basis by the Treasury Unit and is monitored by risk management and ALCO. The bank had enough liquidity available at all times in 2021 to meet all its financial obligations in a timely manner.

The following tables show the undiscounted cash flows of the financial assets and financial liabilities of the bank according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

in '000 MKD

As of 31 December 2021	Up to 1 month	1 - 3 months	4 - 12 months	1 - 5 years	More than 5 years	Total	Carrying amount
Assets:							
Cash	441,245	-	-	-	-	441,245	441,245
Central bank balances	6,565,414	-	-	-	-	6,565,414	6,565,414
Loans and advances to banks	2,913,418	-	-	-	-	2,913,418	2,913,378
Investment securities	189,982	74,973	492,416	11,777	-	769,148	754,427
Loans and advances to customers	922,317	2,261,344	11,176,134	10,893,342	4,793,019	30,046,156	27,989,890
Other financial assets	263,089	-	-	-	-	263,089	263,089
Total assets (contractual maturity dates)	**11,295,465**	**2,336,316**	**11,677,291**	**10,905,119**	**4,793,019**	**41,007,212**	**38,927,443**

in '000 MKD

As of 31 December 2021	Up to 1 month	1 - 3 months	4 - 12 months	1 - 5 years	More than 5 years	Total	Carrying amount
Liabilities:							
Liabilities to banks:	169,601	573,623	3,042,127	3,484,705	1,693,868	8,963,924	8,865,656
Liabilities to customers:	18,242,279	1,147,885	2,754,531	3,941,725	220,887	26,307,306	26,157,537
Provisions	8,025	276	11,645	2,731	531	23,209	23,677
Current tax liabilities	-	-	-	-	-	-	-
Other liabilities	30,597	4,807	3,496	21,791	9,060	69,750	69,750
Subordinated debt	-	-	25,896	58,740	1,294,167	1,378,804	1,314,155
Total liabilities (contractual maturity dates)	**18,450,501**	**1,726,591**	**5,837,696**	**7,509,693**	**3,218,513**	**36,742,993**	**36,430,775**
Total off balance sheet items	**5,695,344**	-	-	-	-	**5,695,344**	**5,695,344**
Net liquidity gap	**(12,850,380)**	**609,726**	**5,839,596**	**3,395,427**	**1,574,506**	**(1,431,125)**	**(3,198,676)**

in '000 MKD

As of 31 December 2020	Up to 1 month	1 - 3 months	4 - 12 months	1 - 5 years	More than 5 years	Total	Carrying amount
Assets:							
Cash	418,938	-	-	-	-	418,938	418,938
Central bank balances	5,561,932					5,561,932	5,513,512
Loans and advances to banks	2,367,115	8	-	-	-	2,367,123	2,366,344
Investment securities	-	76,506	284,551	20,730	-	381,786	381,137
Loans and advances to customers	657,621	1,699,799	9,882,021	10,586,093	5,096,149	27,921,684	25,754,699
Other financial assets	239,491	-	-	-	-	239,491	239,491
Total assets (contractual maturity dates)	**9,244,549**	**1,776,313**	**10,166,572**	**10,606,823**	**5,096,149**	**36,890,954**	**34,674,121**

in '000 MKD

As of 31 December 2020	Up to 1 month	1 - 3 months	4 - 12 months	1 - 5 years	More than 5 years	Total	Carrying amount
Liabilities:							
Liabilities to banks:	12,209	503,028	2,121,687	3,686,662	645,982	6,969,569	6,873,889
Liabilities to customers:	14,549,082	1,006,224	4,564,374	4,309,005	159,732	24,588,417	24,389,624
Provisions	17,985	-	-	112	5,186	23,283	29,418
Current tax liabilities	3,423	-	-	-	-	3,423	3,423
Other liabilities	11,217	-	29,130	21,959	-	62,306	32,497
Subordinated debt	-	4,397	60,789	202,878	1,254,981	1,523,045	1,032,358
Total liabilities (contractual maturity dates)	**14,593,916**	**1,513,649**	**6,775,980**	**8,220,617**	**2,065,881**	**33,170,043**	**32,361,208**
Total off balance sheet items	**5,309,794**	-	-	-	-	**5,309,794**	**5,309,794**
Net liquidity gap	**(10,659,161)**	**262,664**	**3,390,592**	**2,386,207**	**3,030,268**	**(1,588,883)**	**(2,996,882)**

Off balance items:

As at December 31, 2021	Up to 1 month	1-3 months	3-6 months	6-12 Months	1-5 years	Over 5 years	Total
Performance guarantees, payment guarantees and letters of credit	3,008,209	-	-	-	-	-	3,008,209
Loan commitments (revocable)	2,687,135	-	-	-	-	-	2,687,135
Loan commitments (irrevocable)	-	-	-	-	-	-	-
Total 2021	**5,695,344**	**-**	**-**	**-**	**-**		**5,695,344**

As at December 31, 2020	Up to 1 month	1-3 months	3-6 months	6-12 Months	1-5 years	Over 5 years	Total
Performance guarantees, payment guarantees and letters of credit	2,283,137	-	-	-	-	-	2,283,137
Loan commitments (revocable)	3,026,656	-	-	-	-	-	3,026,656
Loan commitments (irrevocable)	-	-	-	-	-	-	-
Total 2020	**5,309,794**	**-**	**-**	**-**	**-**		**5,309,794**

In order to measure the liquidity risk of the bank, some positions, especially customer deposits, are distributed into the time buckets according to assumptions about inflows and outflows based on their observed historical behaviour in stress situations.

Short-term liquidity risk is measured primarily by means of SLI. As of 31 December 2021, the SLI was 2.85 (2020: 2.93), and thus comfortably above the policy requirement of 1 and bank's defined early warning threshold. This indicates a comfortable liquidity situation for the bank.

The bank had adequate liquidity levels at all times during the 2021 financial year.

Funding risk is the danger that additional funding cannot be obtained, or can only be obtained at higher costs. It therefore covers parts of the non-systemic effect of interest rate changes. This risk is mitigated by the fact that the bank finances the lending operations primarily through customer deposits; bank's deposit-taking operations focus on the target group of business clients and private clients/savers, with whom the bank establishes strong relationships. The financial crisis in 2008 and 2009 has shown that the customer deposits are a stable and reliable source of funding. These are supplemented by long-term credit lines from ProCredit Germany or ProCredit Holding, Development Bank of North Macedonia, and international financial institutions (IFIs).

The bank makes little use of the interbank market. In addition, the bank primarily issues instalment loans with monthly repayments. As of end-December 2021, the largest funding source was customer deposits with EUR 413 million. Funding from ProCredit institutions (ProCredit Germany/ProCredit Holding) are the second-largest source of funding, accounting for EUR 66 million.

ProCredit bank manages, measures and limits funding risk through business planning, maturity gap analysis and several indicators. The funding needs of the bank, identified in the business planning process, are monitored and regularly reviewed. ALCO monitors the progress of all individually significant transactions with external funding providers, especially international financial institutions. A key indicator for limiting funding risk is the deposit concentration indicator.

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- **Operational risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems (e.g. failure of data-processing systems, embezzlement, human error, faulty processes, structural weaknesses, insufficient monitoring) or from external events (e.g. criminal activities, natural disasters). This definition also takes into account fraud risk, IT risk, legal risk, reputational risk and outsourcing risk. Operational risk management aims to identify, analyse and assess all material risks at an early stage and to avoid their recurrence.

One of the key components of operational risk management is the detailed recording of risk events arising from operational risks. In this context, a Risk Event Database was developed to ensure that all risk events identified in the group and in the bank with realised or potential losses from operational risks are recorded, analysed and communicated effectively. Through this uniform, pre-defined structure for the documentation of risk events, it is ensured that adequate attention is paid to the implementation of necessary corrective and/or preventive measures for reducing or avoiding operational and fraud risk.

In addition, risk assessments are carried out annually. In contrast to the ex-post analysis of risk events as recorded in the Risk Event Database, these risk assessments are systematically performed in order to identify and evaluate key risks and to assess the adequacy of the control processes. Risk mitigation measures are defined for the areas identified as high risk. These two control components complement each other and provide an overall picture of the operational risk profile for ProCredit bank.

In addition, early warning indicators have been defined, in order to identify areas of banking business with increased fraud risk. The early warning indicators are analysed regularly and, where needed, preventive measures are agreed upon.

To complete the management of operational risk, all new products and/or activities, as well as outsourcing activities, need to be analysed to identify and manage potential risks before implementation.

Operational risk is accounted for and monitored within the scope of the capital adequacy calculation in the economic approach.

The group has defined detailed guidelines and standards to ensure the confidentiality, availability and integrity of all information and information-processing IT systems requiring protection. Regular controls of information security and business continuity are part of existing processes and procedures. The bank carries out a classification of their information assets and conduct a risk assessment on their critical information assets each year. The business continuity framework implemented in the group ensures that these risks are understood by all members of staff, that critical processes are identified and that resources are allocated to restore operations, in line with the prioritisation of processes.

Against the backdrop of the COVID-19 pandemic, the bank has not identified any increase in operational risk (including increase in fraudulent acts). The continuity of business operations, protection of clients and employees, and appropriate staffing levels were ensured at all times. Bank's digital approach to all routine banking operations has enabled us to quickly implement home-office models to protect the health and safety of customers and employees. Another focal point in pandemic times is the regular monitoring of information security. The bank was able to maintain business continuity and guarantee the availability of IT systems without any loss of performance.

Additional Notes

52) Contingent liabilities and commitments

in '000 MKD	31.12.2021	31.12.2020
Credit commitments (revocable)	2,687,135	3,026,656
Payment guarantees	1,262,449	1,193,997
Performance guarantees	1,686,166	1,063,176
Letters of credit	59,593	25,964
Total	**5,695,344**	**5,309,794**

The table above discloses the contractually agreed maximum amounts of contingent liabilities, without consideration of collateral. We expect that the most significant portion of guarantees will expire without being drawn upon. It is not practicable to estimate the future use of the credit commitments.

53) Related party transactions

The ultimate parent company of the Bank is ProCredit Holding AG. The Bank's related parties include the parent, fellow subsidiaries, key management personnel, close family members of key management personnel and entities, which are controlled or significantly influenced by key management personnel or their close family members.

Transactions of Bank with ProCredit group companies
According to the group's strategy, the Parent acts as an additional provider of funds (including subordinated debt) for its subsidiaries.

in '000 MKD	Management Board	Supervisory board	Family members of key personnel	ProCredit Holding and Procredit Banks	Zeitinger Invest GmbH	01.01. - 31.12.2021
Income	124	107	-	4,413	-	4,644
Expenses	(14)	(109)	-	362,733	-	(362,856)
Net income	**110**	**(2)**	**-**	**(358,320)**	**-**	**(358,212)**
Assets	1,679	2,317	-	346,519	-	350,516
Liabilities	6,940	3,511	-	4,110,351	-	4,120,803

in '000 MKD	Management Board	Supervisory board	Family members of key personnel	ProCredit Holding and Procredit banks	Zeitinger Invest GmbH	01.01. - 31.12.2020
Income	219	-	-	1,101	-	1,320
Expenses	(99)	-	-	(285,093)	-	(285,192)
Net income	**120**	**-**	**-**	**(283,992)**	**-**	**(283,872)**
Assets	4,923	-	-	275,057	-	**279,980**
Liabilities	6,954	-	-	4,722,257	-	**4,729,211**

The transactions leading to the above balances were made in the ordinary course of business and on substantially the same terms as for comparable transactions with entities or persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of payment defaults nor did they comprise other unfavourable features.

54) Key management compensation

During the reporting period, total compensation paid to the Managing Board amounted to:

in '000 MKD	1.1.-31.12.2021	1.1.-31.12.2020
short-term benefits	11,784	10,358
Total	**11,784**	**10,358**

To the members of the Supervisory Board travel expenses related to the performance of their duties are reimbursed and additionally the independent members of the Supervisory Board receive payment for the performance of their duties determined with the agreement for their appointment, which in 2021 represent total amount of MKD 644 thousands.

55) Significant post-balance sheet events

No material events subsequent to the statement of financial position date have occurred which require disclosure in the financial statements.

56) Exchange rates

For the balance sheet and the income statement, the following exchange rates used for translation of EUR to MKD were applied:

(amount of MKD for 1 EUR)		2021		2020	
Currency code	**Country**	**At balance sheet date**	**Average for the year**	**At balance sheet date**	**Average for the year**
MKD	North Macedonia	61.627	61.6275	61.694	61.6742

57) Address and general information

ProCredit Bank A.D., Skopje has been registered as a Stock Company domiciled in Republic of North Macedonia. The address of its registered office is as follows:

Manapo 7
1000 Skopje
Republic of North Macedonia

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

Member of Managing Board	Emilija Spirovska
Member of Managing Board	Stevce Kuzmanovski

Ms. Jovanka Joleska Popovska was a member of the Managing Board of the Bank until 12 April 2021.