



NLB Banka

Item on the agenda:6

Proposed by: **Shareholders**

Materials for the Shareholders Assembly of NLB Banka AD Skopje

Remuneration policy for employees with special nature of work at NLB Banka AD Skopje

The Shareholders propose to the Shareholder's Assembly to adopt the following:

Proposal-Decision for adopting a Policy for remuneration of employees with special nature of work in NLB Banka AD Skopje

Attached:

- Proposal-Decision for adopting a Policy for remuneration of employees with special nature of work in NLB Banka AD Skopje
- Remuneration policy for employees with special nature of work at NLB Banka AD Skopje

Skopje, January 2020



Shareholders Assembly of NLB Banka AD Skopje

Proposal-Decision for adopting a Policy for remuneration of employees with special nature of work in NLB Banka AD Skopje

Based on the Decision on rules for good corporate governance in a bank, the Assembly of NLB Banka AD Skopje adopted the following:

Decision for adopting a Policy for remuneration of employees with special nature of work in NLB Banka AD Skopje

1. Policy for remuneration for employees with special nature of work at NLB Banka AD Skopje is adopted
2. This Decision shall enter into force on the day of its adoption.

In Skopje, 16.01.2020

The decision shall be submitted to:
Secretariat
Human Resources Management Center;

Chairman
of the Shareholders Assembly
of NLB Banka AD Skopje



According to article 56 of the Statute of NLB Banka AD Skopje, the Supervisory board of NLB Banka AD Skopje on date _____ .2019 adopted

Policy

On Remuneration of Employees Performing Special Work in NLB Banka AD Skopje

December 2019

Responsibility

| | |
|--------------------------|---------------------------------------|
| Custodian | Center for Human Resources Management |
| Level of decision-making | Supervisory Board |

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1. Introductory provisions

Article 1



The remuneration system for the employees of NLB Banka AD Skopje is governed by the Companies Act, the Employment Relationship Act, the Collective Agreement for the Banking Industry, the Collective Agreement of NLB Banka AD Skopje, as well as the Rules on salaries, remuneration, promotion of employees in NLB Banka AD Skopje, unless otherwise stipulated by individual employment contract.

The provisions of this Remuneration policy for employees performing special work (hereinafter: Remuneration policy or Policy) are harmonized also with the EBA Guidelines on sound remuneration policies in accordance with Article 74/3 and 75(2) of the Directive 2013/36/EU and exposures in accordance with article 450 Decree (EU) No. 575/2013 EBA/GL/2015/22 of 27 June 2016, hereinafter: EBA Guidelines), where NLB d.d. when applying this Remuneration Policy in NLB d.d. and when transferring it to the NLB Group members, pursues the principle of proportionality, taking into account the total assets, the size of the Bank's balance sheets, the available equity and debt instruments, the capital requirements and other criteria defined in the relevant provisions and the EBA Guidelines.

Through the NLB Group corporate governance system and Business Line (hereinafter: the BL), the other entities making up the NLB Group together with NLB d.d. (such other entities hereinafter referred to as: the NLB Group members) have to reasonably transpose this Policy, based on BL standards, into their corporate governance system, taking into account the local legislation and other regulations.

Article 2

The Policy has been formulated pursuant to the Banking Act, applicable at a time, the Bank of Slovenia's Guidelines related to the principle of proportionality in the implementation of the remuneration policies and the EBA Guidelines and the Decision on good bank governance rules issued by the National Bank of Republic of Macedonia, dated February 6, 2018, and the EBA Guidelines. The Policy provides clear orientations for prudent remuneration of employees performing special work in accordance with the above regulations and documents and with the aim of ensuring prudent and efficient risk management.

Article 3

The terms used in this Remuneration Policy shall have the following meaning:

- "employees performing special work" are employees who can significantly impact the risk profile of NLB Banka AD Skopje or NLB Group in the scope of their tasks and activities; they are categorized pursuant to Articles 6 to 8 of this Policy;
- "remuneration" means all forms of fixed and variable remuneration and includes payments and benefits, monetary or non-monetary, awarded directly to employees by or on behalf of institutions in exchange for professional services rendered by employees, carried interest payments in the sense of Article 4(1) (d) of the Directive 2011/61/EU, and other payments made via methods and vehicles which, if they were not considered as remuneration, would lead to a circumvention of the remuneration provisions;
- "base salary" is defined as the net monthly salary from the employment contract, increased by social contributions and taxes, and expressed as a gross amount. From the gross amount of the salary that is about to be paid out, the Bank withholds and pays the calculated contributions and taxes and the remaining net amount is paid out to the employee performing special work, whereas the net salary defined with the contract remains unchanged and fixed.
- "fixed part of salary" or "fixed remuneration" is the part of the salary comprised of base salary, bonuses and allowances, which do not depend on performance.
- "bonus" is defined by the labor law regulations applicable at the time and is considered fixed remuneration;
- "salary compensation" is the allowance received by the employee because of absence from work for the reasons defined by labor law regulations applicable at the time or the Collective Agreement;
- "variable part of salary" or "variable remuneration" is the part of the salary that depends on predetermined and measurable performance criteria of an employee performing special work, their organisational unit and the business results of NLB Banka AD Skopje (or the business



results of NLB Banka AD Skopje and the NLB Group in the event of a member of the Management Board of NLB Banka AD Skopje) and refers to all remuneration that is not fixed;

- “employees” mean all employees in NLB Banka AD Skopje.
- “senior management” means employees at the management level who are directly responsible to the Management in accordance with the currently applicable organizational structure (level II) and those responsible for reporting and adopting current business and operational decisions related to the Bank's operations, risk management and implementation of decisions adopted by the Management Board of the Bank;
- “bonus pool” means the maximum amount of variable remuneration which can be awarded in the award process set at the level of the NLB Bank or Bank's business unit;
- “accrual period” means the period of time for assessment or measurement of performance of employee performing special work with the aim of determining the decision of the variable part of remuneration, which is not shorter than one year;
- “award” means the granting of variable remuneration for a specific accrual period, independently of the actual point in time where the awarded amount is paid;
- “vesting” means the effect by which the employee becomes the legal owner of the variable remuneration awarded, independent of the instrument which is used for the payment or if the payment is subject to additional retention periods or clawback arrangements;
- “deferral period” is the period for which NLB Banka AD Skopje defers the payment of the variable part of the remuneration. The deferral period starts upon the payment of the non-deferred part of the variable remuneration and lasts from 3 to 5 years. In this period the employee is not the legal owner of the variable part of the remuneration awarded;
- “instruments” mean shares, instruments or other contracts from Item 7 of the first paragraph of Article 170 of the ZBan-2 or that fall within one of the two categories referred to in Article 94(1)(l) of Directive 2013/36/EU;
- “retention period” means a period of time after the maturity of the variable remuneration that has been awarded in instruments for payment, during which they cannot be transferred;
- “malus” means an arrangement in this policy, (in the employment contract or in another document) that permits the institution to reduce the value/amount of all or part of deferred variable remuneration based on ex post risk adjustments before it has vested;
- “return of variable remuneration” or “clawback” means an arrangement (in this policy, in the employment contract or in another document) under which the employee has to return (a part of) the variable remuneration paid in the past or which has already vested to the institution under certain conditions;
- “share-linked instruments” mean those instruments whose value is based on the value of the stock and that have the share value as a reference point, e.g. stock appreciation rights, types of synthetic shares;
- “shareholder” means a person who owns shares in an institution or, depending on the legal form of an institution, other owners or members of the institution;
- “control function” or “supervisory function” means (i) the heads of the organisational units that perform the control or supervisory function, e.g. strategic risk management function, compliance function and internal audit function, and, if applicable, the money laundering prevention function, information and personal data protection function and the function of information protection in the IT and (ii) employees with management responsibilities in any of the indicated organisational units who directly report to the head of the organisational unit;
- “business year” shall be equal to a calendar year.

2. General provisions

Article 4



The Remuneration Policy shall be consistent with the goals of NLB Banka AD Skopje and NLB Group, the business strategy of NLB Banka AD Skopje, the organizational culture and values, long-term interests, measures to prevent the conflicts of interest, risk profile and risk appetite.

The Remuneration Policy has been designed so as not to stimulate the employees performing special work to assume non-proportionally high risks or risks that exceed the ability of NLB Banka AD Skopje to assume risks, taking into account all risks, including reputational risks and risks resulting from mis-selling or unethical selling of products or other unethical or non-compliant behavior.

NLB Banka AD Skopje ensures that the Remuneration Policy is compatible with adequate and efficient risk management and that it stimulates such management.

In terms of payment of the remuneration, the Remuneration Policy takes into account the fulfilment of obligations or achievement of goals referring to capital or liquidity and helps achieve and maintain a sound capital base.

The basic principles of the Remuneration Policy serve as a framework for all employees performing special work in NLB Banka AD Skopje and in accordance with the regulations binding for the Bank, applicable at a time, we are introducing the basic principles of the Policy on consolidated basis also in the members of the NLB Group, unless stipulated otherwise by special regulations.

The Remuneration Policy is approved by the Management Board of NLB Banka AD Skopje and it is adopted by the Supervisory Board of NLB Banka AD Skopje, and approved at the General Meeting of Shareholders Assembly of the Bank.

The adequacy of the Remuneration Policy shall be checked annually.

The Bank publishes the information related to the remuneration policy and the remuneration practices in the scope and manner as specified by the provisions binding for the Bank.

Article 5

Conflicts of interests with regard to the Remuneration Policy and remuneration awarded should be identified and appropriately mitigated, including by establishing objective award criteria based on the internal reporting system, appropriate controls and the four eyes principle. Compliance with the rules of the Remuneration Policy, taking into account all the regulations binding on the NLB Banka AD Skopje, ensures that conflicts of interest arising from the payment of variable or fixed remuneration in instruments are identified in advance and managed. The Remuneration Policy further ensures that no material conflicts of interest arise for employees in control functions.

3. Definition of employees performing special work

The identification process

Article 6

NLB Banka AD Skopje defines the employees performing special work in the Remuneration Policy. In defining the employees performing special work, the internal organisation and the nature, scope and complexity of the Bank's activities are taken into account. The criteria fully take into account the risks that the Bank or the NLB Group is or could be exposed to given its risk profile and risk appetite.

NLB Banka AD Skopje conducts annually a self-assessment in order to define the employees performing special work.

Criteria for self-assessment of the employees performing special work



Article 7

The self-assessment of the employees performing special work is made on basis of the qualitative and quantitative criteria from the Delegated Commission Regulation (EU) No (604/2014) and Article 8 of this Policy. Regardless of the above, the members of the Supervisory Board of NLB Banka AD Skopje are not considered employees performing special work for the needs of this Policy and their remuneration is not regulated hereby.

The competent specialized department (Policy custodian) shall at least annually, taking into account the above criteria, draw up a proposal on the basis of which the Bank's Management Board, subject to approval of the Supervisory Board, adopts the self-assessment of the employees performing special work. The proposal shall set the number of employees performing special work, including the number of employees designated as such for the first time, their duties, assignment and comparison with the previous self-assessment results.

The policy custodian will draw the proposal based on conclusions of the Committee for identification of employees performing special work. The Committee consists of representatives of the following functions: Human Resources, Risk Management and Finance.

Article 8

The Remuneration Policy shall apply to the employees performing special work who are defined as such based on the Bank's self-assessment updated during the year. An employee is considered an employee performing special work subject to the fulfilment of the criteria Articles 6, 7 or 8 over a period of at least 3 months.

The employees performing special work defined pursuant to Articles 6, 7 and this Article 8 of this Policy are divided into the following categories:

1. Members of the Management Board of NLB Banka AD Skopje
2. Business function – employees in the front offices of NLB Banka AD Skopje
 - senior management
 - other employees with management employment contracts or conducting deals that affect the Bank's risk profile (e.g. employed in the position of Assistant to the Management Board, Assistant Division Manager, head of unit, who may according to their authorizations assume certain risks)
3. Common function – employees not working in the front offices of NLB Banka AD Skopje and not performing a supervisory function
 - senior management
 - other employees with management employment contracts or conducting deals that affect the Bank's risk profile (e.g. employed in the position of Assistant to the Management Board, Assistant Division Manager, head of unit, who may according to their authorizations assume certain risks)
4. Supervisory or control function – employees included in the internal control system (internal audit, compliance, risk management, and, if applicable, the money laundering prevention function, information and personal data protection function and the function of information protection in the IT)



6. Other employees whose total annual income exceeds EUR 100,000 gross.

Article 9

The compliance function should analyze how the Remuneration Policy affects the institution's compliance with legislation, regulations, internal policies and risk culture and should report all identified compliance risks and issues of non-compliance to the Management Board and the Supervisory Board of the Bank. The findings of the compliance function should be taken into account by the Bank's Supervisory Board during the adoption, review procedures and oversight of the Remuneration Policy.

Risk management committee should make an assessment if the Remuneration system is taking into account the Bank's risk profile and its solvency, liquidity and profitable position, including identified compliance risks and issues of non-compliance.

A central review of the compliance with the regulations, NLB Group policies, procedures and internal rules shall be performed by the internal audit function, assessing whether the overall remuneration policies, practices and processes:

- a. operate as intended (in particular, that approved policies, procedures and internal rules are being complied with; that the remuneration payouts are appropriate, in line with the business strategy; and that the risk profile, long-term objectives and other goals of the Bank are adequately reflected);
- b. are compliant with national and international regulations, principles and standards, if they are applicable or implemented by the Bank; and
- c. are consistently implemented across the NLB Group, are compliant with the principles and restrictions according to the applicable regulation and implemented NLB standards and do not limit the Bank's ability to maintain or restore a sound capital base of the Bank or the NLB Group.

4. Criterion for exempting of the employees performing special work from the Remuneration Policy

Article 10

Certain employees performing special work may be exempted from the application of the Remuneration Policy, if the Bank estimates, based on self-assessment, that they do not meet the conditions set out in the Remuneration Policy, namely, performing work that has a significant impact on the risk profile of NLB Banka AD Skopje and do not meet the conditions specified in this Policy, based on which their professional activities would significantly impact the NLB Group's risk profile

5. Remuneration for work

Article 11

The salary of an employee performing special work shall consist of:

- A fixed part of the salary, which reflects the relevant professional experience and responsibilities at the NLB Banka AD Skopje, as described in the employee's job description, which is part of the recruitment conditions.
- A variable part of the salary which, for the employees performing special work who are not members of the Management Board, consists of:
 - o the part depending on the performance of NLB Banka AD Skopje; control and supervisory functions are not entitled to this part of variable remuneration, except risk management function;



- Work depending on the performance of the organisational unit of the employee performing special work
- Work depending on individual performance of the employee performing special work.

The variable part of the salary of a member of the Management Board is defined in line with the goals and criteria as stipulated by the Bank's Supervisory Board.

The employment contract can stipulate the guaranteed variable remuneration of an employee performing special work only for the first year of their employment in accordance with the Bank's long-term interests. Where the guaranteed part of variable remuneration from this paragraph is awarded to a new employee prior to the first performance assessment period, such variable part of remuneration is not included in the calculation of the relationship between fixed and variable components of the total remuneration for the first performance assessment period. The provisions of this Policy on malus, retention and return of the variable part of the salary do not apply to the guaranteed variable remuneration under this paragraph. Regardless of the other provisions of this Policy, the total amount of the variable remuneration hereunder is paid in cash and is not deferred.

Article 12

The ratio between the variable and the fixed part of salary differs depending on the defined categories of employees performing special work from Article 8 of this Policy. The size of the potential impact on the risk profile of NLB AD Skopje is measured with different criteria, namely:

- the size of potential impact on revenues;
- the size of potential impact on costs;
- the size of potential impact on credit risks;
- the size of potential impact on the business risk;
- the size of potential impact on the business strategy;
- the scope and content of cross-organisational operation.

The level of impact on the risk profile of the Bank will be assessed by the Committee for identification of employees performing special work.

Article 13

If, pursuant to the applicable regulations, the variable part of the remuneration of a certain individual must consist of ordinary or preference shares of the Bank, or instruments related to shares or equal non-cash instruments when the Bank's shares are not listed on the regulated market, the variable remuneration is set according to the criteria whereby the Bank ensures compatibility with a prudent and efficient risk management.

The Bank determines the instruments to be used for the variable part of the remuneration in accordance with the currently applicable regulations.

6. Performance criteria

Article 14



The employees performing special work are entitled to the annual variable part of the salary based on their achievement of financial and non-financial performance criteria subject to the terms and conditions hereof.

The following financial and non-financial performance criteria shall be defined for assessing the performance of employees performing special work:

- I. The criteria for determining the performance of the members of the Bank's Management Board.

The goals of each member of the Bank's Management Board for each individual year and the performance criteria are determined by the Bank's Supervisory Board. The targets consist of the NLB Group goals, goals of NLB Banka AD Skopje and personal goals.

The goals from previous paragraph must be financial and non-financial.

The maximum possible amount of the variable part of the salary of a member of the Bank's Management Board for each business year is 6 salaries.

- II. Criteria for assessing performance of other employees performing special work

1. Goals of NLB Banka AD Skopje

The Management Board sets the goals of NLB Banka AD Skopje for each business year and the Bank's Supervisory Board approves them.

The goals set for NLB Banka AD Skopje apply to employees performing special work.

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined pursuant to Article 18 of this Policy, depending on the fulfilment of the relevant goals from the previous paragraph; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- 2 salaries for the employees performing special work in a business function;
- 1 salary for other employees performing special work;
- employees performing special work in supervisory and control function are not entitled to the variable part of the salary for this segment (by exemption the control risk management function may be awarded up to a maximum of 0,5 salary)

2. The Goals of the organisational unit of the employee performing special work:

The concrete targets which derive from the targets of NLB Banka AD Skopje of the organisational unit where the employee performing special work assumes risk are defined by their direct superior officer for each business year and include the following areas:

- business goals of the organisational unit, project goals, cross-functional goals;
- financial goals of the organisational unit (if specified).

The amount of the variable part of the salary, of an employee performing special work hereunder for each individual business year is determined pursuant to Article 18 of this Policy, depending on the fulfilment of the goals of the OU; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:



- 2 salaries for the employees performing special work in business unit and in control or supervisory function (by exemption the control risk management function may be awarded up to a maximum of 1,5 salary)
- 1 salary for other employees performing special work.

3. Personal goals of the employee performing special work (development, project and other goals).

Personal goals of an employee performing special work are defined by their direct superior officer for each business year.

The amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is determined pursuant to Article 18 of this Policy, depending on the fulfilment of the personal goals; the maximum amount of the variable part of the salary of an employee performing special work hereunder for each individual business year is:

- 1 salary for the employees performing special work.

Financial and non-financial performance criteria must be included in at least one of the above groups of targets.

III. Additional rule related to the criteria for determining performance of the control and supervisory functions

The performance criteria for supervisory/control functions are established on the basis of the goals of their function and powers. Variable remuneration is awarded and paid depending on the achievement of goals linked to their functions, which should be independent from the performance of the supervised organisational units.

The general rules related to the award and payment of variable remuneration

Article 15

The award and payment of the variable part of remuneration (also the deferred part) to the employee performing special work depends on adjustment criteria which result from risk management through the system for monitoring performance based on KPI and KRI targets at the level of the NLB Group, the Bank and individual OUs. The criteria that are applied include compliance with the adopted policies, methodologies, orientations, regulators' and auditors' requirements as well as authorizations linked to the work of the employee performing special work. The award of the variable remuneration is regulated in detail in Article 19, the payment in Article 20 and the subsequent risk-adjustment in Article 21 of this Policy.

An employee performing special work is not entitled to the variable part of salary for a specific business year if they fail to achieve their personal goals for that year, regardless of the fact whether the goals of NLB Banka AD Skopje or the NLB Group and the goals of the OU for that year have been achieved or not.

When assessing the performance of the members of the Bank's Management Board, the Supervisory Board also takes into account the interim situation on the local, regional as well as global banking and economic market and the achievement of the goals of the members of the Bank's Management Board, taking into account their activities in pursuing the Bank's best interest.

Variable remuneration shall not be awarded or paid out when the effect would be that the capital base of the Bank and/or NLB Group would no longer be sound. If the soundness of the capital base could be at risk due to allocating and paying the variable remuneration, the Bank shall take the following measures within the required scope:



:

- reduce the variable bonus pool for the previous business year, even down to zero and appropriately consider such reduction when awarding the variable remuneration for the previous business year;
- use the necessary measures to adjust the performance, particularly the maluses for the reduction of previously awarded but not paid deferred variable remuneration
- reduce the previously paid remuneration based on the agreement on the return of variable remuneration;
- use the net profit of the institution for the previous business year and potentially for the current and subsequent business years to strengthen the Bank's capital base.

7. Monitoring and assessing performance of employees performing special work

Article 16

The performance of the employees performing special work shall be monitored semi-annually and assessed once a year for the previous business year by no later than 31 March of the current business year or when the business results for the previous business year are known.

8. System for setting goals and assessing

Article 17

The goals shall be set according to the SMART method, meaning that they have to be:

- specific (the goal shall be defined in short and understandably),
- measurable (the Head shall specifically define the result),
- challenging (referring to the scope and ability of attainment of the goal),
- worth the effort (the goal is realistic and leads to a higher goal),
- time-based (the time frame is defined).

When setting goals, the following shall be defined:

- THE NUMBER OF GOALS - 3 to 5 key goals are set for the employee performing special work as a rule, depending on the complexity of work, and may be changed during the period (added, finalized, etc.);
- WEIGHT – a weight shall be set for each goal, reflecting the importance of the set goal;
- DEADLINE – the start date and the end date shall be set for the goal;
- SUBGOALS or main activities for achieving the goal – the main tasks and activities for attaining the goal shall be defined;
- CRITERION – indicators shall be defined for determining goal attainment;
- TARGET VALUE – the expected result shall be defined (in figures or as a description).

The goals for each business year are defined prior to the beginning of the year.

The set objectives are checked quarterly or semi-annually, revised and corrected, if necessary.

The goals are set by taking into account the adopted risk appetite and risk strategy defining the risk appetite in the framework of KPI & KRI targets.

9. The grading scale for the performance of employees performing special work and the scale for determining the amount of the variable part of the salary



Article 18

Each criterion shall be assessed on a 5-grade scale used for assessing the achievement of goals, as follows:

Table 1: Presentation of the criteria for assessing the achievement of goals

| ASSESSMENT | |
|--------------------------------|---|
| 5 – all goals exceeded | goals achieved at 111% or more |
| 4 – most of the goals exceeded | goals achieved from 101% up to (including) 110% |
| 3 – goals achieved | goals achieved from 90% up to (including) 100% |
| 2 – goals partly not achieved | goals achieved from 80% up to (including) 89% |
| 1 – goals not achieved | goals achieved at 79% or less |

The achievement of the goals is assessed by taking into account risk appetite and contribution to risk, meaning that the assessment can be adjusted to these criteria.

Tables 2 to 5: Determination of the amount of the variable part of the salary for each business year

| Determination of the amount of the variable part of the salary for Member of Management Board for each business year | | | |
|--|------------------------|----------------------------------|--------------------|
| Assessment of performance | Goals of the NLB Group | Goals of the NLB Banka AD Skopje | Personal goals |
| 5 – all goals exceeded | up to 2 salaries | up to 2 salaries | up to 2 salaries |
| 4 – most of the goals exceeded | up to 1.5 salaries | up to 1.5 salaries | up to 1.5 salaries |
| 3 – goals achieved | up to 1 salaries | up to 1 salaries | up to 1 salaries |
| 2 – goals partly not achieved | 0 | 0 | 0 |
| 1 – goals not achieved | 0 | 0 | 0 |

| Determination of the amount of the variable part of the salary for employees performing special work in business function for each business year | | | |
|--|------------------------------|--------------------|---------------------|
| Assessment of performance | Goals of NLB Banka AD Skopje | Goals of the OU | Personal goals |
| 5 – all goals exceeded | up to 2 salaries | up to 2 salaries | up to 1 salaries |
| 4 – most of the goals exceeded | up to 1.5 salaries | up to 1.5 salaries | up to 0.75 salaries |
| 3 – goals achieved | up to 1 salaries | up to 1 salaries | up to 0.5 salaries |
| 2 – goals partly not achieved | 0 | 0 | 0 |
| 1 – goals not achieved | 0 | 0 | 0 |

| Determination of the amount of the variable part of the salary for other employees performing special work for each business year | | | |
|---|------------------------------|------------------|------------------|
| Assessment of performance | Goals of NLB Banka AD Skopje | Goals of the OU | Personal goals |
| 5 – all goals exceeded | up to 1 salaries | up to 1 salaries | up to 1 salaries |



| | | | |
|--------------------------------|---------------------|---------------------|---------------------|
| 4 – most of the goals exceeded | up to 0.75 salaries | up to 0.75 salaries | up to 0.75 salaries |
| 3 – goals achieved | up to 0.5 salaries | up to 0.5 salaries | up to 0.5 salaries |
| 2 – goals partly not achieved | 0 | 0 | 0 |
| 1 – goals not achieved | 0 | 0 | 0 |

| | | |
|---|--------------------|---------------------|
| Determination of the amount of the variable part of the salary for employees performing special work in control and supervisory function for each business year | | |
| Assessment of performance | Goals of the OU | Personal goals |
| 5 – all goals exceeded | up to 2 salaries | up to 1 salaries |
| 4 – most of the goals exceeded | up to 1.5 salaries | up to 0.75 salaries |
| 3 – goals achieved | up to 1 salaries | up to 0.5 salaries |
| 2 – goals partly not achieved | 0 | 0 |
| 1 – goals not achieved | 0 | 0 |

| | | | |
|---|------------------------------|---------------------|---------------------|
| By exception possible determination of the amount of the variable part of the salary for employees performing special work in the control risk management function for each business year | | | |
| Assessment of performance | Goals of NLB Banka AD Skopje | Goals of the OU | Personal goals |
| 5 – all goals exceeded | up to 0.5 salaries | up to 1.5 salaries | up to 1 salaries |
| 4 – most of the goals exceeded | up to 0.4 salaries | up to 1,1 salary | up to 0.75 salaries |
| 3 – goals achieved | up to 0.25 salaries | up to 0,75 salaries | up to 0.5 salaries |
| 2 – goals partly not achieved | 0 | 0 | 0 |
| 1 – goals not achieved | 0 | 0 | 0 |

The above tables 2 to 5 define the amount of the variable part of the salary of an employee performing special work for each business year, depending on the achieved assessment by goal.

10. Award of the variable part

Article 19

Employees performing special work are entitled to the annual variable part of the salary which is awarded and/or paid based on their achievement of the financial and non-financial performance criteria and other terms and conditions, specified in this Policy.

The decision whether the performance criteria have been achieved for the members' Management Board members is adopted by the Supervisory Board, whereas for other employees performing special work these decisions are adopted by the Bank's Management Board. The assessment of supervisory/control functions has to be given by the Banks' Management Board and approved by the Banks' Supervisory Board.

Pursuant to the first and the second paragraph hereunder, prior to awarding variable remuneration to an employee performing special work, the Bank makes the adjustment of such variable remuneration to performance and risks, taking into account the adjustment criteria based on the KPI and KRI goals, and the criteria listed in the table below. The table below shows the cases in which the Supervisory Board of the member and the Management Board of the member reduce the amount of variable remuneration



(potentially down to zero) of a member of the Management Board or another employee performing special work, respectively, due to the preliminary risk adjustment prior to the awarding. If reduction to zero is not mandatory according to the table below, the competent body determines the reduction of the variable remuneration on the basis of the circumstances of each case.

| Ser. No. | Circumstances | Mandatory reduction of variable remuneration to zero | Reduction of variable remuneration, potentially to zero |
|----------|--|--|---|
| 1. | The performance of the NLB Banka AD Skopje shows material negative trends that result from the decisions adopted by the employee performing special work in the accounting period, to which the variable remuneration is related | X | |
| 2. | Fraud or abuse by the employee performing special work | X | |
| 3. | Severe violations of the regulations of the NLB Banka AD Skopje or internal documents of the NLB Banka AD Skopje by the employee performing special work | X | |
| 4. | The actions of the employee performing special work show signs of a criminal offence | X | |
| 5. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related show signs of a minor offence | | X |
| 6. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related reduce or damage of reputation of the NLB Banka AD Skopje | | X |
| 7. | Violation of obligations arising from the employment relationship by the employee performing special work in the accounting period, | | X |



| | to which the variable remuneration is related | | |
|-----|---|---|---|
| 8. | Non-diligent conduct of the employee performing special work, which is intentional or arises from severe negligence in the accounting period, to which the variable remuneration is related, causing material damage to the NLB Banka AD Skopje | X | |
| 9. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, result in a conflict of interest with the business interests | X | |
| 10. | Corruptive actions of the employee performing special work resulting in or increasing the non-transparency in the adoption of business decisions | X | |
| 11. | The cooperation of such employee performing special work in, or their responsibility for, the actions that led to significant losses for the NLB Banka Skopje | X | |
| 12. | Fit & Proper assessment of such employee performing special work is negative | | X |
| 13. | The actions of such employee performing special work is contrary to the Code of Conduct in the NLB Group | | X |
| 14. | The soundness of the capital base of NLB Banka AD Skopje could be at risk due to allocating and/or paying the variable remuneration | | X |
| 15. | Considering the financial position of the NLB Banka AD Skopje as a whole, the variable remuneration would not be sustainable | | X |



| | | | |
|-----|---|--|---|
| 16. | The financial performance of the NLB Banka AD Skopje and/or the business unit in which the employee performing special work is employed is poor or negative | | X |
| 17. | The NLB Banka AD Skopje and/or the business unit in which the employee performing special work is employed, is particularly unsuccessful in the area of risk management | | X |
| 18. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, contributed to the NLB Banka AD Skopje being imposed a regulatory fine | | X |

The amount of the variable remuneration to be awarded, its composition, the share of variable part of the remuneration to be deferred and the period of payment deferment pursuant to this Remuneration Policy shall be determined by the Supervisory Board for the members of the Management Board and by the Management Board for other employees performing special work.

The basis for the calculation of the amount of the variable part of the salary of an employee performing special work for each business year is the average (monthly) gross salary of such employee performing special work for the period of their term of office in this business year. Regardless of the previous sentence, if the employment contract of an employee performing special work stipulates a different basis for the calculation of the amount of their variable part of the salary for individual business year, the other base is used for such purpose. In this Policy, the term "salary" is also used for the basis for the calculation of the variable part of the salary for an employee performing special work for an individual business year, from the first or the second sentence of this paragraph.

The payment of the variable part of the salary is conducted by principle "gross salary paid in net amount". From the gross amount of the variable part of the salary that is about to be paid out, the Bank withholds and pays the calculated contributions and taxes and the remaining net amount is paid out to the employee performing special work.

The Supervisory Board approves the total remuneration amount for each member of the Management Board as well as each control function.

The total amount of the annual variable remuneration is adopted by the Supervisory Board, based on proposal by the Remuneration Committee.

The value of the variable part of the salary by any circumstances may not exceed 100% of the fixed annual remuneration.



11. Payment of the variable part

Article 20

The decision whether all the criteria have been achieved to pay the variable part of salary to the Management Board members shall be adopted by the Supervisory Board, whereas for other employees performing special work this decision shall be adopted by the Management Board of the Bank which reports to the Bank's Supervisory Board on the matter.

Pursuant to the guideline from Item 6 of the Guidelines of the Bank of Slovenia on the application of the principle of proportionality when implementing income policies dated 22/06/2016, the NLB d.d. defined the variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2 by determining the bottom threshold in such a manner that the variable remuneration of an employee that does not exceed EUR 50,000.00 gross in a business year is as a rule not considered a variable part of the remuneration for the purpose of Item 7 of the first paragraph of Article 170 of ZBan-2. The defined amount per employee, taking into account the principle of proportionality, risk strategy, risk profile and risk appetite, ensures efficient and prudent risk management.

An equal amount, taking into account the principle of proportionality, is also set at the NLB Group level or in the members of the NLB Group.

If it does not exceed EUR 50,000.00 gross and if that is permitted by the applicable regulations, the variable remuneration of an employee performing special work for an individual business year is awarded and paid in cash.

If the variable remuneration of an employee performing special work for an individual business year exceeds EUR 50,000.00 gross and if that is mandatory according to the relevant regulations, at least 50% of such amount must consist of instruments; the employee performing special work may only transfer such instruments with the NLB d.d. and/or NLB Banka Skopje AD Skopje approval which cannot be issued before the expiry of two years after the acquisition. The provision of the previous sentence thus relates to the non-deferred and the deferred part of the variable remuneration from the previous sentence. If the award and payment of the entire variable remuneration of an employee performing special work for an individual business year that does not exceed EUR 50,000.00 gross in cash are not permitted pursuant to the fourth paragraph hereunder, the fifth paragraph hereunder shall apply mutatis mutandis.

If that is mandatory according to the relevant regulations, 50% of the variable remuneration of an employee performing special work awarded for an individual business year must be deferred for a period of 3 years of the day on which the non-deferred part of such variable remuneration is paid.

The non-deferred part of variable remuneration is paid no later than 3 months after the adoption of the Annual Report of NLB Banka AD Skopje for the business year to which the variable remuneration relates, provided also that the Supervisory Board determines the variable remuneration for the members of the Management Board of NLB Banka AD Skopje for the said business year prior to that.

The deferred part of the variable remuneration is paid under the terms and conditions from this Policy, no later than three months after the adoption of the Annual Report of NLB Banka AD Skopje for the business year prior to the business year in which the period of deferment, subject to cumulative fulfilment of the following two conditions prior to the payment: (i) the period of deferment has expired; and (ii) the Supervisory Board of NLB Banka AD Skopje sets the variable remuneration for the members of the Management Board of NLB Banka AD Skopje for the business year prior to the business year in which the deferment period expires.

Prior to the payment of the deferred part of the variable remuneration, NLB Banka AD Skopje assesses the performance and the assumed risks and, if necessary, adjusts the deferred part of the variable



remuneration (the Supervisory Board or the Management Board in relation to the deferred part of the variable remuneration of a member of the Management Board or an employee performing special work, respectively), taking into account the adjustment criteria based on the KPI&KRI goals, and the criteria specified in the Table in Article 21 of this Policy. When assessing the conduct of the employees performing special work, NLB Banka AD Skopje shall apply the principle of zero tolerance (i.e. every circumstance from the Table from Article 21 of this Policy shall be discussed in accordance with this Table).

The non-deferred part of the variable remuneration in the members of the NLB Group may not fall due for payment before the adoption of the Annual Report of NLB Group for the business year to which the variable remuneration refers (pursuant to the ZGD-1, the Supervisory Board approves and thus adopts the Annual Report; if the Supervisory Board does not adopt it, it must be adopted by the General Meeting). The deferred part of the variable remuneration in the members of the NLB Group may not fall due prior to the cumulative fulfilment of the following two conditions: (i) the period of deferment has expired; and (ii) the Annual Report of NLB Group has been adopted for the business year prior to the business year in which the deferment period expires.

12. Malus, retention and return of the variable part (clawback)

Article 21

The table below shows the cases in which the Supervisory Board of the NLB Banka AD Skopje and the Management Board of the NLB Banka AD Skopje reduce the amount of deferred part of the variable remuneration to be paid out in cash or the number or value of the instruments constituting the deferred part of the variable remuneration (potentially down to zero) of a member of the Management Board or another employee performing special work, respectively, due to the subsequent risk adjustment prior to the maturity. If reduction to zero is not mandatory according to the table below, the competent body determines the reduction of the deferred part of the variable remuneration on the basis of the circumstances of each case.

| Ser. No. | Circumstances | Mandatory reduction of the deferred part of the variable remuneration to zero (holdback) | Reduction of the deferred part of the variable remuneration, potentially to zero (clawback) |
|----------|--|--|---|
| 1. | The performance of NLB Banka AD Skopje in the period of deferred payment shows material negative trends that result from the decisions adopted by the employee performing special work | X | |
| 2. | Fraud or abuse by the employee performing special work | X | |
| 3. | Severe violations of the regulations of the NLB Banka AD Skopje or internal documents by the employee performing special work | X | |
| 4. | The actions of the employee performing special work show signs of a criminal offence | X | |
| 5. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related show | | X |



| | signs of a minor offence | | |
|-----|---|---|---|
| 6. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related reduce or damage of the NLB Banka AD Skopje reputation | | X |
| 7. | The nullity of the annual report is established with a binding effect and the grounds for nullity refer to the items or facts based on which the variable part of the salary | | X |
| 8. | Violation of obligations arising from the employment relationship by the employee performing special work in the accounting period, to which the variable remuneration is related | | X |
| 9. | Non-diligent conduct of the employee performing special work, which is intentional or arises from severe negligence in the accounting period, to which the variable remuneration is related, causing material damage to the NLB Banka AD Skopje | X | |
| 10. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, result in a conflict of interest with business interests of the NLB Banka AD Skopje | X | |
| 11. | Corruptive actions of the employee performing special work resulting in or increasing the non-transparency in the adoption of business decisions | X | |
| 12. | It is established with a special auditor's report that the criteria for defining the variable part of the salary were applied incorrectly or that the critical accounting, financial and other data and indicators were incorrectly established or applied. | | X |
| 13. | The variable remuneration had not been awarded in accordance with this Policy | | X |
| 14. | If a new fact is revealed that could change the decision on the award or the amount of the variable remuneration | | X |
| 15. | The cooperation of such employee performing special work in, or their responsibility for, the actions that led to significant losses for the NLB Banka AD Skopje | X | |
| 16. | Fit & Proper assessment of such employee performing special work is negative | | X |



| | | | |
|-----|---|--|---|
| 17. | The actions of such employee performing special work is contrary to the Code of Conduct in the NLB Group | | X |
| 18. | The soundness of the capital base of the NLB Banka AD Skopje could be at risk due to paying the variable remuneration | | X |
| 19. | Considering the financial position of the NLB Banka AD Skopje as a whole, the variable remuneration is not sustainable | | X |
| 20. | The financial performance of the NLB Banka AD Skopje and/or the business unit in which the employee performing special work is employed is poor or negative | | X |
| 21. | The NLB Banka AD Skopje and/or the business unit in which the employee performing special work is employed, is particularly unsuccessful in the area of risk management | | X |
| 22. | The actions of the employee performing special work in the accounting period, to which the variable remuneration is related, contributed to the NLB Banka AD Skopje being imposed a regulatory fine | | X |

Note: The cases in which an individual option can be used are marked with a cross.

if the circumstances of a case are not clear enough to allow for deciding on whether the deferred part of the variable part of remuneration is paid out or not, or in what amount it is to be paid, the Bank can decide (the Supervisory Board or the Management Board in relation to the deferred part of the variable remuneration of a member of the Management Board or an employee performing special work, respectively) that the deferred part of the variable remuneration shall not fall due upon initially set maturity and it may defer the decision on whether, in what amount and when to pay the deferred part of the variable until the circumstances are clarified. In the case from the previous sentence, the competent body of the NLB Banka AD Skopje from the previous sentence decides whether the deferred part of the variable remuneration is to be paid or not, and in what amount it is to be paid and when, once the relevant circumstances have been clarified to its satisfaction.

If a circumstance from Item 7, 12, 15 or 16 of the table under this Article 21 of this Policy occurs or is revealed and the (non-deferred or deferred) part of the variable remuneration as already been paid, the Bank has the right to demand, within a period of 3 years from the payment of the part of the variable remuneration, the employee performing special work return such part of variable remuneration, partially or in full, with mutatis mutandis application of this Article 21 of this Policy. Furthermore, the NLB Banka AD Skopje has the right to demand, within a period of 3 years from the payment of the part of the variable remuneration, the employee performing special work return such part of variable remuneration, partially or in full, if it is established after the payment that the employee performing special work significantly contributed to poor or negative financial performance of the NLB Banka AD Skopje or used fraud or taken any other intentional action or caused, through gross negligence, great losses to the NLB Banka AD Skopje. The decision under this paragraph shall be adopted by the Supervisory Board or the Management Board in relation to the deferred part of the variable remuneration of a member of the Management Board or an employee performing special work, respectively, duly taking into account the circumstances of each case.



13. Compensation for early termination of the term of office/employment and compensation for the competition clause

Article 22

1. Compensation for early discontinuation of the term of office of a member of the Management Board

Pursuant to Item 12 of the first paragraph of Article 170 of the ZBan-2 payment to an individual in connection with the early termination of their employment contract shall reflect the performance of that individual during a specific period and shall not reward them for failures or possible breaches at the bank. According to the above it may not be stipulated in the contract on the employment of a member of the Management Board with the NLB Banka AD Skopje that a member of the Management Board is entitled to a compensation for early termination of the term of office if they are dismissed by the Supervisory Board due to (i) a severe violation of the obligations; or (ii) the inability to manage business; or (iii) due to a vote of non-confidence issued by the General Meeting of the NLB Banka AD Skopje, except in the case such vote of no confidence is obviously ungrounded. Furthermore, it may not be stipulated in the contract on the employment of a member of the Management Board with the NLB Banka AD Skopje that a member of the Management Board is entitled to a compensation for early termination of the term of office (i) if they are re-employed by the NLB Banka AD Skopje or the NLB Group after the termination of the term of office; or (ii) in the event of a regular termination of the term of office. It may be stipulated in the contract on the employment of a member of the Management Board with the NLB Banka AD Skopje that a member of the Management Board is entitled to a compensation for early termination of the term of office only if dismissed for other business or economic reasons, in which case the proposal of the President of the Management Board for the dismissal of a member of the Management Board can be considered 'other business or economic reason' (the second paragraph of Article 27 of the Bank's Articles of Association) and in case the member of the Management Board resigns (in such case, they can only be entitled to a compensation for early termination of the term of office if so decided by the NLB Banka AD Skopje Supervisory Board). The compensation for early termination of the term of office from the previous sentence, stipulated in the contract on the employment of a member of the Management Board with the NLB Banka AD Skopje, may not exceed the amount which is calculated using the following general formula: gross monthly salary of such member of the Management Board, payable on the basis of the month prior to the termination of the term of office, multiplied by 12. In the sense of Item 154 a and Item 149 of the EBA Guidelines, the compensation for early termination of the term of office hereunder is not considered in the calculation of the ratio between the variable and fixed components of the remuneration and it is not subject to deferment and payment in instruments. The details of the compensation for early termination of the term of office hereunder are defined in the contract on the employment of a member of the Management Board with the NLB Banka AD Skopje.

2. Severance pays for other employees performing special work

The severance pays to the employees performing special work who are not members of the Management Board are paid by the NLB Banka AD Skopje in accordance with the labour law regulations and the collective agreements and are therefore considered fixed remuneration and not variable remuneration in the calculation of the ratio between variable and fixed components of remuneration, thus not subject to deferment and payment in instruments.

3. Compensation for the competition ban for the members of the Management Board and other employees performing special work



If a competition clause is included in the contract on the employment of a member of the Management Board or another employee performing special work and applies after the termination of employment under that employment contract, a compensation for such competition ban may be agreed in the employment contract for the period after the termination of employment thereunder in which such ban applies. Such compensation for the non-competition period may not exceed the limitation stipulated in Item 154 b of the EBA Guidelines. In the sense of Item 154 b the EBA Guidelines, the compensation for the competition ban hereunder is not considered in the calculation of the ratio between the variable and fixed components of the remuneration and it is not subject to deferment and payment in instruments. The details of the compensation for the competition ban hereunder are defined in the employment contract.

Article 23

The variable part of the employee performing special work for each business year is awarded in proportion to the duration of their term of office or employment on the position for which the variable part of the salary is awarded in this business year and the actual time of performing the work on that position in that business year, taking into account the proportional part of reduction for absence due to illness in case such individual absence is longer than 30 days (with the exception of accident at work), parental leave and unpaid leave in such business year.

Regardless of potential other provisions of this Policy, the employee performing special work shall not be entitled to the variable remuneration in relation to a specific position in a business year in which their first term of office or employment started if the period of such term of office or employment in the relevant business year was shorter than 6 months.

Unless stipulated otherwise in the employment contract, during the probationary period, an employee performing special work shall only be entitled to variable remuneration not exceeding 50% of the variable part of the salary they would otherwise be entitled to under this Policy, if not in probationary period.

14. Restriction of personal insurance against risks

Article 24

An employee performing special work may not use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their variable remuneration.

15. Transitional and final provisions

Article 25

This Policy shall enter into force when it is adopted by the Supervisory Board of NLB Banka AD Skopje and shall apply for payments for business year 2019.

With adoption of this **Policy, the Policy of Remuneration for the Employees Performing Special Work in the NLB Banka AD Skopje from 20.06.2018 (No.0202-161/2)** is **ceased to be valid**.

The article 13 and article 20, paragraph 5 shall be applied after adoption of this Policy by the General Meeting of Shareholders Assembly of the Bank.

For the payments of the deferred parts of the variable for previous years, the regulations (the Remuneration Policy and the individual contracts) shall be applied that were valid in the period to which the variable part is referred.



The implementation of the previous paragraph does not exclude the implementation of the Article 21 of this Policy.

Article 26

The supervisory bodies of each member of the NLB Group in Slovenia and outside Slovenia shall be obliged to implement the Remuneration Policy for the employees performing special work in that company that must be aligned with the Remuneration Policy of NLB d.d. within the limits permitted by the local regulations. The members of the NLB Group must report to NLB d.d. about the implementation of its provisions at least once a year.

The supervisory body in each member of the NLB Group must ensure that the remuneration policy of such member of the NLB Group is considered and implemented for all its employees whose activities have a significant impact on its risk profile.

16. Reference documents

Article 27

Companies Act

Banking Act

Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks

Rules on determining other rights under management employment contracts or the Bank's other internal regulations

Decision on reporting on the facts and circumstances by banks and savings banks

Rules on determining other rights under management employment contracts or the Bank's other internal regulations

Bank of Slovenia's Guidelines in connection with the application of the principle of proportionality in the exercise of remuneration policy

Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 (EBA/GL/2015/22 dated 27/06/2016)

Decision on good bank governance rules issued by the National Bank of Republic of Macedonia, dated February 6, 2018.

Statement of the Custodian of the internal act for alignment and confirmation of the internal act:

"I, the custodian of the internal act, guarantee that the internal act was submitted for review, alignment and confirmation to all organizational units in the Bank to which the proposed internal act, i.e. its amendments, has an impact and was confirmed by them. With them, the internal act is aligned in a way that its content is clear, in accordance with other internal acts of the Bank and is not in contrary to other internal acts in the Bank."

| Signer and role | Reason for signing | Date of signing | Signature |
|---|--------------------|-----------------|-----------|
| Lira Sekulovska, Human Resources Advisor, Human Resources Management Center | Prepared | | |
| Elizabeta Sazdovska, Human Resources Advisor, Human Resources Management Center | Prepared | | |
| Blagorodna Mircovska, Assistant Head of Department Compliance and Information Security Department | Reviewed | | |
| Ivana Dojcinovska Stojanovik, Manager of Human Resources Management Center | Reviewed | | |

Skopje, 12.12.2019

Chairman
of the Shareholders Assembly
of NLB Banka AD Skopje

