

Item on the agenda:3
Proposer: **Supervisory Board**

Material for the Annual Shareholders Assembly of NLB Banka AD Skopje

Annual report on the operations of NLB Banka AD Skopje for 2020

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

Annual report on the operations of NLB Banka AD Skopje for 2020

In addition:

- Annual report on the operations of NLB Banka AD Skopje for 2020
- Opinion of the Supervisory Board regarding the Annual Report on the operation of NLB Banka AD Skopje for 2020;
- Proposal-Decision on the adoption of the Annual Report on the Operations of NLB Banka AD Skopje for 2020 and the Opinion of the Supervisory Board regarding the Annual Report.

Skopje, April 2021

**ANNUAL REPORT OF NLB BANKA AD
SKOPJE
FOR 2020**

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I. Profile of the Bank

NLB Banka AD Skopje¹ was founded in 1985 and has been operating as a commercial bank that performs all banking services for clients from the country and abroad since 1993. Since its beginnings, it has been one of the leading banking institutions in the Republic of North Macedonia with a steady upward trend and continuous positive results. The Bank belongs to systemically important banks and is the third largest bank in the Republic of North Macedonia by net assets. The Bank's strategic shareholder is Nova Ljubljanska Banka d.d. Ljubljana with 86.97% participation in the total capital of the Bank. The Bank has been a member of the NLB Group since 2000.

Activities of the Bank in 2020

In 2020, the Bank operated in accordance with the 2020 Business Policy, the 2020-2024 Strategic Development and Operations Guidelines of the Bank and the NLB Group's 2020 Guidelines, adjusting its current operating activities and pricing policy to economic and market conditions, in accordance with the changes in the legal provisions and the changes in the business policy of the NLB Group.

In an extremely challenging year with numerous constraints in the domestic economy as well as globally, the Bank has made progress in many areas, with solid profits and credit portfolio growth, and as a socially responsible company has contributed to dealing with the consequences of the pandemic through financial assistance and other measures to support the community and individuals.

In the past period, a series of activities were realized to redirect the operations of customers through digital channels, which contributed to increasing their use, in certain segments in over 100% compared to the same period last year. The redirection to these channels as a simpler, cheaper and more accessible way to perform banking transactions was partly due to the situation caused by Covid-19, but mainly due to strategic investment initiatives with state-of-the-art technologies that bring a positive user experience, as well as the Bank's ongoing efforts in educating clients about the application of digital banking.

The bank met its customers' needs by adjusting its offer in order to mitigate the negative consequences of the Covid-19 crisis. Namely, the clients physically and financially affected by the pandemic, who meet certain criteria, were given the opportunity to postpone the repayment of credit obligations.

For legal entities, i.e. micro and small enterprises that are an important pillar of the domestic economy, the NLB Help Frame project was organized and whereby the Bank provided support to the reported companies identified as most affected by the crisis through free advertising and promotion of their products and services through various media and channels.

¹ Hereinafter referred to as the Bank

Significant events and activities in 2020 by months:

January

During the month, the main prize (exclusive package arrangement for two people in Kitzbühel, Austria) was awarded as part of the prize game organized for the Bank's clients "A different winter experience with Mastercard® haPPy in Kitzbühel, Austria".

The bank was a participant and proud sponsor of the International Tournament in football "Tose Proeski", which took place from 24.01 - 26.26.2020 in Skopje. The tournament is held for eleven years in a row, and NLB Banka participates for the second time.

The Bank changed the interest rates on loans and deposits to individuals as a result of the change in the national reference interest rate.

February

New fast payment methods have been introduced within NLB mKlik - mobile banking - two innovative payment solutions "Pay to a friend" and "Share account" that allow customers to transfer funds or share an account with their friends, simply by selecting a contact from their phonebook.

March

Following the declaration of the pandemic, the Bank introduced preventive measures and guidelines for the protection of employees and customers, promoting responsible behaviour. In that direction, some of the employees started working from home, while all clients were provided with free execution of all transactions through electronic and mobile banking until 15.04.2020. For the clients legal entities, the monthly fee for maintenance of the equipment of the POS terminals of the Bank at the traders with monthly turnover lower than 20,000 MKD until 31.05.2020 was postponed and the date of the announced changes of the fees for the domestic payment operations was postponed.

April

As a socially responsible company, in order to facilitate our country to deal with the pandemic caused by the coronavirus, the Bank realized a donation of 50 thousand euros to support the Ministry of Health and the Infectious Diseases Clinic in Skopje. This donation was a contribution to respond to the challenges posed by the situation with Covid 19, as an initial financial assistance to support the efforts of the competent institutions in dealing with the situation.

May

As part of the set of measures and services to alleviate the consequences of the pandemic, free use of the payment platform for E-commerce was made possible for all legal entities and traders. This service, which provides a superior user experience and a high degree of safety during use, was available without connection costs and without monthly maintenance costs in the first 6 months for all new customers. Promotional campaigns were extended, in which consumer and housing loans were offered on more favourable terms. Considering the current events related to the pandemic, the Bank made an early payment of pensions in order to reduce the pressure on the branches.

June

The bank was named the Best Bank in Northern Macedonia at the European Banking Awards for 2019 by the financial magazine EMEA, for the fourth year in a row.

The criteria and parameters on the basis of which these prestigious awards were given refer to the ability of banks and financial institutions to provide innovative products and services, to show excellent results in investment banking, as well as the ability and capacity to function as socially responsible companies in society in which they act.

July

The "NLB Help Frame" project was launched in response to current developments and uncertain economic conditions due to the Covid 19 virus pandemic, in order to help micro and small businesses in the industries most affected by the crisis. Through this initiative, the Bank provided support to micro and small enterprises through free advertising and promotion of their products and services through various media.

August

A new functionality was introduced through NLB mKlik mobile banking - mKlik loan.

With this, for the first time on the Macedonian market, the request and approval of loan becomes available to customers directly via mobile phone. Another significant novelty in August was the opening of a new, modern equipped branch office in Taftalidze.

In addition, the pension was provided to the retired clients at a home address, and a special offer was created for the former clients of Eurostandard Bank.

September

Through a promotional campaign with Visa cards for individuals and issuance of a value card for use in certain activities, the Bank helped businesses most affected by the crisis. The funds from the card could have been used by the clients in the period until 30.11.2020 at points of sale of the most affected activities: catering, beauty salons, hairdressing salons, dental offices, dermatological offices, travel agencies, shops for sports equipment, clothes, jewellery, etc. which provided support and contributed to the revival of the most vulnerable businesses.

New credit products were introduced during the month to support competitiveness and energy efficiency, and an agreement was signed with the EBRD to support the corporate sector and the population.

October

NLB Banka was awarded the best bank in the category "Return on Capital" by the renowned magazine "Finance Central Europe". The same month, on the occasion of the 35th anniversary, a large donation campaign was launched with the active participation of all customers - users of NLB MasterCard cards.

The month of savings was marked, also with a donation campaign. Namely, for each received children's drawing on the topic "Exploring the beauties of our country with Tibi and Shtuki", the Bank donated funds to the PHI University Clinic for Children's Diseases - Skopje.

November

On the occasion of the 35th anniversary of the Bank, the current promotional campaign of loans was extended, with which the NLB Housing Loan was offered with a repayment period of up to 35 years, and the NLB Consumer Loan with a fixed interest rate for the first 35 months.

On the occasion of the Tax Workers' Day, November 29, the Bank received recognition from the Public Revenue Office for a high level of tax culture in 2020.

December

The use of NLB mKlik - mobile banking for individuals and NLB mProklik - mobile banking for legal entities was enabled on the AppGallery platform, for the users of the new models of Huawei mobile phones.

The Bank once again supported the initiative of the Government of RNM by participating in the payment of financial assistance to citizens within the fourth package of measures to deal with the crisis caused by Covid 19.

Table 1.Key performance indicators

	2019	2020	Budget 2020
ROE before tax	20,2%	16,2%	17,9%
ROE after tax	18,2%	14,9%	16,1%
ROA before tax	2,5%	2,0%	2,1%
ROA after tax	2,2%	1,9%	1,9%
Cost/Income Ratio	43,3%	42,6%	42,2%
Market share of total assets	16,1%	16,5%*	16,3%
Capital Adequacy Ratio	16,4%	15,7%	15,7%
Earnings per share - EPS (MKD/ number of shares)	2.166	1.995	2.314
Profit before tax (mil. MKD)	2.047,2	1.857,3	2.161,8
(change in %)	-13,0%	-9,3%	-5,3%
Profit after tax (mil. MKD)	1.849,9	1.704,3	1.976,3
(change in %)	-12,8%	-7,9%	-6,4%
Net operating income (mil. MKD)	4.404,0	4.494,2	4.694,3
(change in %)	-8,8%	2,0%	-6,2%
Operating costs (mil. MKD)	1.904,8	1.916,4	2.013,1
(change in %)	6,6%	0,6%	-5,4%
Impairment and provisions, net (mil. MKD)	452,0	720,5	519,4
(change in %)	-34,3%	59,4%	-13,0%
Net interest income / Average interest-bearing assets	3,4%	3,0%	2,9%
Net interest income / Average gross assets	4,0%	3,7%	3,6%
Balance sum (mil. MKD)	88.176,9	96.545,2	87.110,9
(compared to 31.12.)	7,8%	9,5%	-1,2%
Loans to non-banking sector (change in %)	6,2%	6,1%	8,5%
(market share in %)**	17,4%	17,6%	17,6%
Deposits to non-banking sector (change in %)	8,9%	9,9%	-2,0%
(market share in %)**	17,3%	18,0%	16,1%
Provisions for balance and off-balance claims (mil. MKD)	5.052,7	5.096,5	5.326,5
(change in %)	-5,4%	0,9%	-5,1%
Assets on which provisions are calculated (mil. MKD)	70.680,7	79.679,7	-
(change in %)	7,1%	12,7%	-
Coverage of portfolio with provisions	7,1%	6,4%	-
Non-performing loans/Total loans	4,3%	4,2%	5,2%
Loans to non-banking sector/Deposits from non-banking sector	75,5%	72,9%	83,6%
Number of branches ***	52	50	54
Number of employees	903	877	902
Number of FTE employees	924	901	937
Profit before tax per employee (thsd. MKD)****	2.267,1	2.117,8	2.396,6
Net Profit per employee (thsd. MKD)****	2.048,6	1.943,3	2.191,1

* last data available as of 30.09.2020

** market shares are according to data published in the section of the Monetary Statistics of the NBNM Statistical Web Portal

***in the total number of branches in 2019, 2 counters are included

****in relation to number of employees

II. Macroeconomic environment

The Macedonian economy in 2020 was marked by the pandemic caused by Covid-19. Numerous sectors and activities were affected by the crisis and are still affected by the health and economic consequences of the pandemic. As of the third quarter, when GDP fell by 3.3% and annual decline of 5.9%, the Macedonian economy officially entered a recession with the deepest decline in almost two decades. The annual decline in GDP which according to domestic and foreign institutional forecasts for 2020 ranged from 4.1% to 5.9%, and the recovery for 2021 is expected to range from 3.6% to 5.5%, shows that in the best conditions only in 2022 it is possible to return to the pre-pandemic level of the economy. The introduction of a state of emergency in the period from March to June 2020, followed by restrictive measures and restrictions on movement, uncertainty from the emerging health crisis that quickly spilled over into the real sector, resulted in a decline or stagnation of domestic consumption, industrial production, foreign trade, manufacturing, construction and other industries.

Domestic state institutions through monetary and fiscal policy adopted a series of measures in order to mitigate the negative effects of the Covid-19 pandemic, which as expected spill over into the next year. However, in May 2020, the international rating agency "Fitch" confirmed the credit rating of North Macedonia "BB +" with a negative outlook, emphasizing that the financial system is in good condition and can contribute to mitigating the shock of the corona-virus crisis, providing credit support for the Macedonian economy. Additionally, in September 2020, the international rating agency "Standard and Poor's" reaffirmed the credit rating of North Macedonia "BB-/B", with a stable outlook emphasizing the monetary policy stance and the National Bank's measures to contribute to offsetting the effects of the Covid-19 pandemic on the Macedonian economy, which separately indicates the reduction of the basic interest rate to the historically lowest level, the regulatory space for delaying the collection of credit liabilities and the measures for providing additional liquidity in the banking system.

Table 2. Key macroeconomic indicators

	2018	2019	2020
Inflation (% average)	1,5	0,8	1,2
Industrial production (% period/period)	7,9	-5,9	2,5
Reference rate NBRNM (%)	2,50	2,25	1,50
Treasury bill rate (%)	2,50	2,25	1,50
GDP (growth%)	2,7	3,6	-3,3*
GDP (mil.EUR)**	10.699,0	11.210,2	7.743,02*
Budget deficit (mil.EUR)	-189,0	-221,6	-876,0
% of GDP	-1,8%	-2,0%	-8,5%***
Government debt(mil.EUR)	4.344,4	4.556,8	5.516,0
% of GDP	40,4%	40,7%	51,0%
Current account (mil.EUR)	-14,9	-313,5	-276,6*
% of GDP	-0,1%	-2,7%	-1,7%
External debt	2.695,0	2.763,5	3.382,5
% of GDP	25,2%	24,7%	31,3%
Foreign reserves (mil.EUR)	2.867,1	3.262,6	3.359,9
Unemployment rate (%)	20,7%	17,3%	16,5*
Foreign direct investment (mil.EUR)	603,7	363,3	96,6*
% of GDP	5,6%	3,2%	-0,7%*

*Q3.2020

**GDP production metod,current prices

*** Projected by Ministry of Finance

Source: NBRNM, SSO, Ministry of finance

The GDP decline rate which the Macedonian economy achieved as of Q3 2020 is 3.3%, is a significant improvement over the largest decline in the last two decades which was realized in Q2 2020 of 14.9% as a result of restrictive measures and restrictions on movement. Decline rate of 4.1% was recorded in personal consumption, while growth rate of 13.5% was recorded in public consumption, compared to the same period last year, considering current prices, while growth rate of 4.2% was also recorded by gross investments. From a production point of view, most of the sectors realized an increase such as Manufacturing by 9.1%, Trade and transport by 2.3%, Mining by 10.4%, while growth in the rate was registered in Construction by 3.4%, Information and communication by 3.3% and Agriculture by 5.2%.

The downward trend in **the unemployment rate**, which reached a historic low of 16.2% in the first quarter of 2020, was halted by the outbreak of the Covid-19 pandemic. At the end of the third quarter of 2020 unemployment rate was 16.5% (2019: 17.3%) amid simultaneous employment decline of 46.6% (2019: 47.3%). The number of unemployed persons in the third quarter (155.575) compared to the same period last year is lower by 9.127 persons or by 5.5%, while the number of employed persons (785.561) is lower by 13.985 employees or by 1.7%. The average monthly net wage paid in November 2020 was 27.588 MKD or 7.0% more than in November 2019.

Total **foreign trade exchange** for the period January - December 2020 amounted to EUR 13.372 million and compared to the same period last year declined by 10.0%. Exports decreased by 9.8% while imports decreased by 9.7% making the rate of import-export coverage 76.1%, while the negative trade balance amounted to EUR 1.816,6 million or 9.8% lower than the same period last year (EUR 2.036 million). In the period January - December 2020 according to the total volume of foreign trade, Republic of North Macedonia traded mostly with Germany, Great Britain, Greece, Serbia and China.

Foreign direct investment as of Q3 2020 amounted to EUR 96.6 million, a 43.4% decrease over the same period last year, when foreign direct investment amounted to EUR 170.8 million.

Real sector

Industrial production as of 31.12.2020 achieved cumulative annual decline of 9.5% compared to the same period last year. The decrease stems from the achieved result in all sectors, as follows: in the Manufacturing industry sector decreased by 9.9%, in the Mining and quarrying sector decreased by 6.3% and in the Electricity, gas, steam supply and air conditioning sector decreased by 10.1%. The decline in the Manufacturing sector is primarily due to the reduced production in the following departments: Food production (4.5%), Beverage production (8.8%), Tobacco production (15.3%), Textile production (11.2%) etc.

Construction, in relation to the value of performed operations as of November 2020 amounts to 3.692.847 thousand MKD. In the same period, the number of issued building permits was lower by 14.4% compared to the same period last year. The residential property price index in Q4 2020 was 100,09 (based on 2010 prices) and is increased by 1.7% compared to the same period last year.

Fiscal sector

The State budget in 2020 total realized revenues of MKD 189.8 billion (EUR 3.1 billion) or 3.3% less than the second rebalance and 14.6% less than planned Budget. VAT revenues amounted to MKD 46.9 billion (EUR 0.8 billion) and are 2.3% lower of the second rebalance of the Budget or 15.9% lower than planned for the period. Total expenditures amount to MKD 243.6 billion (EUR 4 billion) or 3.6% lower than the second rebalance and 1.6 higher than planned. The budget deficit for 2020 is MKD 53.9 billion (EUR 0.9 billion) or 4.7% below the second rebalance and 210% above the planned Budget for 2020. The Budget rebalance was made as a result of the consequences and measures taken to protect against the Covid-19 pandemic.

Government debt (consolidated) in 2020 amounted to 340.3 billion MKD (EUR 5.516 million), representing 51% of GDP (2019: 40.7%). Out of the total government debt, 66.7% represent external debt (2019: 66.9%), while 33.3% (2019: 33.1%) of the debt is created from domestic sources.

Guaranteed and non-guaranteed debt of publicly owned companies and state-owned joint stock companies in 2020 amounted to MKD 59.677,4 million (EUR 967.3 million), 2019: EUR 984.1 million.

Monetary sector

During 2020, the National Bank made the reduction of the basic interest rate as well as the significant reduction of the offered amount of treasury bills, which contributed to the increase of the liquidity of the banking system and support of the credit flows in the economy. Additionally, the National Bank adopted a series of measures and recommendations for dealing with the corona-crisis, which in the first half of the year significantly contributed to creating liquidity in the banking system, which is used to provide support to the Macedonian economy, mainly by maintaining credit flows and the credit cycle by the banks. The National Bank has continuously monitored and assessed the monetary positioning as appropriate to the existing economic and financial conditions, in conditions of a pandemic characterized by sound economic fundamentals. At the same time, it is concluded that the MKD exchange rate remains stable in conditions of F/X reserves at an appropriate level and in the safe zone, with the dynamics of change that is expected according to the forecasts.

Interest rate on treasury bills was reduced from 2.0% to 1.75% in March 2020 and again reduced to 1.50% in May 2020.

Average inflation rate as measured by the cost of living up to 2020 amounted to 1.2% (2019: 0.8%) while the average retail price index rate amounted to 0.4%.

Total payment operations in the country realized through banks as of 30.09.2020 amounted to 13.036,4 billion MKD (EUR 212 billion) which is an increase of 15.6% compared to the same period last year.

Foreign exchange market turnover as of 2020 amounted to USD 9.8 billion and was 8.4% lower compared to the same period last year.

Balance of payments deficit as of 30.09.2020 amounted to EUR 276.6 million and was 253% higher compared to the same period in 2019 (EUR 78.4 million).

Foreign exchange reserves at the end of 2020 amounted to EUR 3.359,9 million and as of the end of 2019 they increased by EUR 97.3 million or 3.0%, generally with securities as part of the foreign reserves.

The capital market as of 2020 records increase in turnover by 6.4% compared to the same period last year, thus total value of turnover amounted to EUR 133.3 million. MSE10 stock exchange index as of 31.12.2020 was up by 1.2% compared to the same period last year and amounted to MKD 4.704,85.

Key legislative and regulatory changes affecting operations

During 2020 several laws and bylaws were adopted, and numerous amendments were made to the existing laws and bylaws and decrees with legal force which affected certain areas of the Bank's operations. Among the most significant changes that have affected the Bank's operations are the following:

- Law on amending the Law on Prevention of Money Laundering and Financing of Terrorism;
- Law amending and supplementing the Law on electronic documents, electronic identification and confidential services;
- Law on Classified Information;
- Law amending and supplementing the Law on Income Tax;
- Law on Energy Efficiency;
- Law on interest write-off and reprogramming debts and expenses of individuals;
- Law on Personal Data Protection;
- Law on Financial Support of low-income citizens, pension beneficiaries, beneficiaries of the right to social security for the elderly, young people, single parents, children without parents and parental care, artists and other persons engaged in cultural activities, film workers and pop artists;
- Law amending and supplementing the Law on Trade Companies;
- Law on amending the Law on Tax Procedure;
- Law on Consumer Protection in Consumer Credit Agreements during a state of emergency;
- Decision on measures to prevent the introduction and spread of coronavirus Covid-19;
- Decision on the liquidity risk management methodology;
- Decision on amending the Decision on the content and the manner of functioning of the credit register;
- Decision amending and supplementing the Decision on the credit risk management methodology;
- Decision on amending the Decision on the required reserve;
- Decision on amending the Decision on the single fees' tariff for the services performed by the National Bank of the Republic of North Macedonia;
- Decision on the manner of determining related persons and the exposure limits;
- Decision on supplementing the Decision on the accounting (account) plan for banks;
- Decision on the access and the manner of using non-public information of the National Bank of the Republic of North Macedonia;
- Decision on the form and content of the reports on performed micropayments and the dynamics of their submission;
- Decision on preventive recommendations, temporary measures, ordered measures, purposeful protocols, plans and algorithms for action to protect the health of the population from the infectious disease Covid-19 caused by the SARS-CoV-2 virus, the cases and the time period of their application;
- Decision on amending the Decision on the manner and conditions under which residents who are not authorized banks can open and have accounts abroad.
- Decision on determining the existence of a state of emergency;
- Decision on supplementing the Decision for risk management methodology;
- Decision amending and supplementing the Decision on the single fee tariff for the services performed by the National Bank of the Republic of Macedonia;
- Decision on amending the Decision on the required reserve;
- Decision on prohibition and special regime of movement on the territory of the Republic of North Macedonia;
- Instructions for amending the Instructions for implementation of the Decision on the content and the manner of functioning of the credit register;
- Decision amending and supplementing the Decision for the methodology for determining adequacy of capital;
- Decision on amending the Decision on the single fee tariff for the services performed by the National Bank of the Republic of North Macedonia;
- Guidelines for amending and supplementing the Guidelines for the manner of performing international payment operations;

- Guidelines for amending the Guidelines for implementation of the Decision on the methodology for identifying systemically significant banks;
- Decree with legal force for application of the Law on Foreigners during a state of emergency;
- Decree with legal force for application of the laws on travel documents of the citizens of the Republic of Macedonia during the state of emergency;
- Decree with legal force for application of the Law on ID card during state of emergency;
- Decree on the detailed conditions for preparation of documents for electronic storage and qualified electronic storage and the formats suitable for storage;
- Decree with legal force for application of the Law on General Administrative Procedure during a state of emergency;
- Decree with legal force for application of the Law on Bankruptcy during a state of emergency;
- Decree with legal force for application of the Law on Trade Companies during a state of emergency;
- Decree with legal force for application of the Law on Income Tax during a state of emergency;
- Decree with legal force for application of the Law on Personal Income Tax during a state of emergency;
- Decree with legal force for application of the Law on Tax Procedure during a state of emergency;
- Decree with legal force on the manner of changing the contractual conditions of credit exposures with banks and savings houses;
- Decree with legal force for application of the Law on Repair and Reconstruction of part of the banks in the Republic of North Macedonia during the state of emergency;
- Decree with legal force for the application of the Law on Enforcement during the state of emergency;
- Decree with legal force for the application of the Law on Obligations during a state of emergency;
- Decree with legal force for application of the Law on Labor Relations during a state of emergency;
- Decree with legal force for application of the Law on Donations and Sponsorships in public activities during a state of emergency;
- Decree with legal force for application of the Law on Banks during the state of emergency;
- Decree with legal force for application of the Law on Games of Chance and Amusement Games during a state of emergency;
- Decree with legal force to supplement the Decree with legal force for implementation of the Decree with legal force for financial support of citizens and low-income employees, young people and health professionals by issuing a home payment card intended for purchase of Macedonian products and services during an emergency.

III. Banking sector

The banking system, which is characterized by sound fundamentals and high liquidity in 2020, despite the outbreak of the Covid-19 pandemic, remained stable and in good condition, which helped mitigate the shock of the corona-crisis, providing credit support to the economy. Credit growth and the deposit base were positive in both segments - both households and enterprises. The share of non-performing loans in total loans in the first three quarters of the year has decreased and there is adequate aloofness for non-performing loans to manage credit risk.

In August 2020, the National Bank revoked the license for establishment and operation of Eurostandard Bank AD Skopje, thus reducing the number of banks as of 30.09.2020 to 14 banks, 11 of which with dominant foreign capital. The group of large banks, comprised of five banks, participated with over 76.5% (2019: 74.7%) in the total net assets, indicating high concentration of the banking sector as in previous years. Eight banks hold less than 5% (<EUR 320 million) in total net assets as of 30.09.2020, while the share of savings houses remains insignificant.

In October 2020, the Shareholders Assemblies of two banks, Ohridska Banka AD Skopje and Sparkasse Banka AD Skopje, decided to start the integration of the two banks, whereby the entire assets and liabilities of Ohridska Banka will be transferred in exchange for shares of Sparkasse Bank, without conducting a liquidation process. The integration is expected to be completed in Q2 2021, and until then the banks will function as separate legal entities.

During 2020, the National Bank reduced the interest rate on treasury bills and significantly reduced the offered amount of treasury bills, as part of the measures to facilitate monetary policy and contribute to increasing the liquidity of the banking system and supporting credit flows. All this together with the high excess of liquidity constantly pushed for reduction of interest rates, primarily for household deposits, while the pressure on loans was more pronounced at companies.

Basic indicators

Table 3. Basic indicators, 30.09.2020

in mil.MKD	30.9.2019	31.12.2019	30.9.2020	Compared to 30.09.2019	
				%	abs
Balance sum	528.592	549.969	568.174	7,5%	39.582
Capital and reserve	60.017	60.295	67.763	12,9%	7.745
Deposits from non-financial sector	388.235	405.587	413.805	6,6%	25.570
Loans to non-financial sector(gross)	326.870	339.699	348.735	6,7%	21.864
Provisions(balance and off-balance)	18.841	18.945	17.639	-6,4%	-1.202
Gross NPL(financial and non-financial sector)	16.239	16.187	12.005	-26,1%	-4.234
Gross profit	5.804	7.514	5.925	2,1%	121

Source: NBRNM – Supervision, Data, and ratios for banking sector in N. Macedonia

As of 30.09.2020, total loans to the non-banking sector registered growth, compared to the same period last year, of MKD 21.9 billion (EUR 357 million) or 6.7%, whereupon in the segment of population with growth of MKD 13.6 billion (EUR 222 million) or 8.3%, while non-financial corporations (private and public) increased by MKD 8.3 billion (EUR 135 million) or 5.2%. The credit growth on annual basis at non-financial corporations stems from lending in foreign exchange, while in the population sector there is higher growth in lending in MKD.

The share of MKD loans in the total loans as of 30.09.2020 is 58.6% (2019: 58.4%). Regarding the maturity structure, 15.5% are short-term, while 79.9% are long-term loans (2019: 17.5% short-term, 77.3% long-term).

As of 30.09.2020 total deposits in the non-banking sector registered an annual growth of MKD 25.6 billion (EUR 416 million) or 6.6%, in the population segment with an increase of MKD 15.7 billion (EUR 255 million) or 5.9%, while non-financial corporations (private and public) increased by MKD 9.3 billion (EUR 151 million) or 8.7%.

The share of the MKD deposits in the total deposits as of 30.09.2020 is 60.0% (2019: 61.5%).

In terms of maturity structure 33.5% are sight deposits (2019: 31.9%), 42.1% are short-term (2019: 41.2%), while 24.4% are long-term deposits (2019: 26.9%).

The ratio of gross loans/deposits with the non-banking sector as of 30.9.2020 is 84.3% (2019: 83.8%).

Credit portfolio quality

The share of non-performing loans in the gross loans to the non-banking sector as of 30.09.2020 was 3.4% (2019: 4.8%), whereby the household sector indicator decreased to 1.6% (2019: 2.0%), while in enterprises the indicator decreased to 5.3% (2019: 7.3%).

Financial stability

The liquidity of the banking sector is maintained at a high level. High liquid assets of banks as of 30.09.2020 reached 21.6% (30.09.2019: 24%) of the total assets and covers 36.2% of the short-term liabilities (30.09.2019: 41.9%).

Capital adequacy ratio of the banking sector as of 30.09.2020 was 16.9% (2019:16.3%).

Profitability

As of 30.09.2020 the banking sector had a net profit of MKD 5.913 million (EUR 96.2 million) or by EUR 2 million higher than the same period last year when it achieved a profit of MKD 5.791 million (EUR 94.2 million). Increased profitability is a result of more realized net interest income, increase in net exchange rate differences, higher realized capital gains from sale of assets, higher realized remaining operating income, higher collected previously written off receivables due to decline in net commission fees income and higher separate provisions (corrections) of financial and non-financial assets.

Interest income, compared to the same period last year, is lower by MKD 558 million (EUR 9.1 million) or 3.9%, interest expenses are lower by MKD 599.1 million (EUR 9.7 million) or by 18.7%, while other non-interest income increased by MKD 395.3 million (EUR 6.4 million) or by 6.8%. Operating expenses, employee expenses, depreciation and other operating expenses decreased by MKD 149 million (EUR 2.4 million) or by 1.8%.

The allocated impairments and provisions for financial and non-financial assets are lower by MKD 996.5 million (EUR 16.2 million) or 14.4%.

Table 4. Profitability indicators of the banking sector, 30.09.2020

in %	30.9.2019	31.12.2019	30.9.2020	Compared to 30.09.2019	
				%	p.p
ROA (gross)	1,5%	1,3%	1,4%	-6,0%	-0,09 pp
ROE (gross)	13,5%	11,7%	12,3%	-8,8%	-1,19 pp
Cost/income	50,0%	50,1%	47,9%	-4,2%	-2,12 pp
Staff expenses / Total regular income	22,5%	22,3%	21,5%	-4,7%	-1,05 pp
Staff expenses / Operating costs	44,9%	44,6%	44,8%	-0,2%	-0,09 pp
Non interest income / Total regular income	44,6%	46,2%	45,5%	1,9%	0,84 pp

Source: NBRNM – Supervision, Data and ratios for banking sector in N. Macedonia

Group of Large Banks (Peer Group)

The Group of Large Banks is comprised of 5 (five) banks with assets over MKD 430 billion (EUR 6.682 million), where the three banks have assets of over MKD 311 billion (EUR 5.057 million), while two banks have assets under MKD 99.8 billion (EUR 1.622 million).

Basic indicators

The balance sheet amount of the Group of Large Banks as of 30.09.2020 increased by MKD 40.2 billion (EUR 654 million) compared to the same period last year and their share in the banking sector amounted to 76.5% (2019: 74.7%). Deposits increased by MKD 30.2 billion (EUR 491 million), loans (gross) increased by MKD 21.3 billion (EUR 346 million), the capital is higher by MKD 7.1 billion (EUR 115.5 million) compared to 30.09.2019, while gross profit is lower by MKD 492 million (EUR 8 million) compared to the same period last year.

Table 5. Basic indicators, 30.09.2020

in mil.MKD	30.9.2019	31.12.2019	30.9.2020	Compared to 30.09.2019	
				%	abs
Balance sum	394.553	410.972	434.801	-4,0%	40.248
Capital and reserve	45.599	45.764	52.702	-0,4%	7.103
Deposits from non-financial sector	306.141	320.703	336.359	-4,5%	30.219
Loans to non-financial sector(gross)	241.924	251.744	263.229	-3,9%	21.305
Provisions(balance and off-balance)	14.870	14.680	14.632	1,3%	-238
Gross NPL(financial and non-financial sector)	11.456	11.131	10.203	2,9%	-1.253
Gross profit	5.643	7.723	5.151	-26,9%	-492

Source: NBRNM – Supervision, Data and ratios for banking sector in N. Macedonia

Credit portfolio quality

Regarding the quality of the loan portfolio, the share of non-performing loans in total loans to the non-banking sector in the group of Large Banks as of 30.09.2020 equalled 3.9% (31.12.2019: 4.4%).

Profitability

As of 30.09.2020, the Group of Large Banks achieved a gross profit of MKD 5.151 million (EUR 83.8 million) or MKD 492 million (EUR 8 million) less than the same period last year when it achieved a profit of MKD 5.643 million (EUR 91.8 million). The decrease in profitability is mainly due to the lower realized net income from fees and commissions, less realized capital gains from sale of assets, as well as higher value impairments of financial and non-financial assets.

Interest income in relation to the same period last year is lower by MKD 297,8 million (4.8 million EUR) or 2.8%, interest expenses are lower by MKD 343 million (EUR 5.6 million) or 16.7%, while other non-interest income increased by MKD 551 million (EUR 9 million) or by 12.5%. On the expenditure side, total costs (staff costs, depreciation and other operating expenses) were higher by MKD 185 million (EUR 3 million) or by 3.2%. Losses due to impairment of financial and non-financial assets as of 30.09.2020 are higher by MKD 692 million (EUR 11.3 million) or 30.4%.

Table 6. Peer group profitability indicators, 30.09.2020

in %	30.9.2019	31.12.2019	30.9.2019	Compared to 30.09.2019	
				%	abs
ROA (gross)	2,0%	1,8%	1,6%	-18,8%	-0,38 pp
ROE (gross)	17,5%	16,1%	14,0%	-20,3%	-3,55 pp
Cost/income	43,7%	43,7%	43,1%	-1,3%	-0,55 pp
Staff expenses / Total regular income	19,7%	19,7%	18,9%	-4,0%	-0,78 pp
Staff expenses / Operating costs	45,1%	45,0%	43,8%	-2,8%	-1,26 pp
Non interest income / Total regular income	43,2%	45,0%	45,4%	5,2%	2,23 pp

Source: NBRNM – Supervision, Data and ratios for banking sector in N. Macedonia

IV. Financial results ²

Despite the fact that 2020 was specific in every respect, and above all under the direct influence of the negative effects of the Covid-19 challenge, the Bank achieved excellent results. These results are a response to the proactive approach of the Bank, as well as to the successful restructuring in conditions of health crisis, during which the business continuity was maintained and all activities and customer service were uninterrupted, respecting all the measures recommended aimed at protection from the unpredictable Covid-19 challenge.

The result of the Bank is primarily guided by the well-developed client approach, the adjustable offer of the Bank's products to the specific situation as well as the availability of the Bank to its customers, through a developed sales network, 24 hour availability of the Contact center and well-developed digital channels which were the first choice of customers in times of crisis. Even in the conditions of the biggest health crisis so far, the Bank continued with its unreserved support to its clients and the economy in general and continued to lend to the population and the economy. All this led to the achievement of a good financial result that the Bank achieved through the implementation of the following activities:

- Annual growth of the non-banking sector loans by 6.1%, result primarily due to the growth of the loan portfolio to individuals by 9.4%;
- Decrease in the amount of non-performing loans, mainly as a result of activities undertaken under the "NPL management Initiative", present in the Bank during 2019 and 2020;
- Growth of non-interest income due to realized higher income from commissions, income from sale of collected previously written-off receivables and growth of net income from exchange rate differences;
- Redirecting liquidity surplus into investment of Eurobonds traded on foreign markets and in domestic government bills;
- Expanding the base of clients which use the Bank's products and services.

Income Statement

Table 7. Income statement

mil.EUR	1.1.- 31.12.2019	1.1.-31.12.2020		Compared to			
		Budget	Actual	1.1.-31.12.2019		Budget	
1 Interest income	3.480,3	3.587,0	3.329,4	-150,9	-4,3%	-257,6	-7,2%
2 Interest expenses	514,9	429,1	413,9	-101,0	-19,6%	-15,1	-3,5%
Net interest income	2.965,4	3.157,9	2.915,5	-49,9	-1,7%	-242,5	-7,7%
3 Fee and commission income	1.723,5	1.829,3	1.737,1	13,6	0,8%	-92,2	-5,0%
4 Fee and commission expenses	619,4	619,2	614,3	-5,1	-0,8%	-4,9	-0,8%
Net fee and commission income	1.104,1	1.210,1	1.122,9	18,8	1,7%	-87,3	-7,2%
5 Net gains/(losses) on financial instruments held for trading	-19,7	-3,8	-45,8	-26,2	133,1%	-42,1	1121,4%
6 Net foreign exchange gain	188,5	147,5	239,5	51,0	27,1%	92,0	62,4%
7 Net income from other financial instruments designated at fair value	-0,7	-0,5	0,5	1,1	-169,1%	0,9	-197,6%
8 Other operating income	166,4	183,0	261,7	95,3	57,3%	78,7	43,0%
Net operating income	4.404,0	4.694,3	4.494,2	90,2	2,0%	-200,1	-4,3%
9 Personnel expenses	829,7	905,7	824,2	-5,6	-0,7%	-81,5	-9,0%
10 Depreciation	167,3	189,3	196,0	28,7	17,1%	6,7	3,5%
11 General and administrative expenses	907,8	918,2	896,3	-11,5	-1,3%	-21,9	-2,4%
Profit before impairment and provisions	2.499,2	2.681,2	2.577,8	78,6	3,1%	-103,4	-3,9%
12 Reversal of provisions for off-balance sheet items	77,3	0,0	23,2	-54,0	-69,9%	23,2	/
13 Provisions for off-balance sheet items	13,9	12,3	26,8	12,9	93,0%	14,5	117,9%
14 Impairment of financial assets	490,8	518,8	669,5	178,7	36,4%	150,7	29,0%
15 Provisions for pending lawsuits	20,1	0,0	0,0	-20,1	-100,0%	0,0	/
16 Losses due to impairment of non-financial assets	4,5	-11,7	50,8	46,3	1035,4%	62,5	-534,7%
17 Reversal of provisions due to impairment of non-financial assets	0,0	0,0	3,4	3,4	/	3,4	/
Profit before tax	2.047,2	2.161,8	1.857,3	-189,8	-9,3%	-304,4	-14,1%
18 Income tax expense	197,3	185,4	153,1	-44,2	-22,4%	-32,4	-17,5%
Profit after tax	1.849,9	1.976,3	1.704,3	-145,6	-7,9%	-272,1	-13,8%

² The positions of the Financial Statements in the Annual Report are consistent with those of the Bank's Financial Statements prepared in accordance with the NBRNM methodology, except where it is necessary to present a clearer presentation. The differences are of a presentation nature, while the final positions (profit and total assets/liabilities) do not differ.

Profit

In 2020, the Bank realized **profit before tax** in the amount of MKD 1,857.3 million, which is 9.3% lower than the profit realized in the previous year, result which is due to higher impairment of financial assets as well as higher losses due to impairment of non-financial assets.

Profit after tax for 2020 amounted to MKD 1,704.3 million and is lower than the plan by 13.8% as a result of the negative effects caused by the Covid 19 pandemic, while compared to the previous year, the profit was lower by 7.9% due to higher losses due to impairment of non-financial assets. **Profit before impairment and provisions** amounted to MKD 2,577.8 million or 3.9% below planned for 2020 and 3.1% higher than the realized in 2019 generally as a result of higher fee and commission income, net income from exchange rate differences as well as other operating income.

The total net cost of **Impairment and provisions for financial assets, impairment of non-financial assets, provisions for off-balance sheet and for pending lawsuits** totalled MKD 720.5 million during the year, which is 38.7% more than planned, corresponding to the portfolio quality and activities, and 59.4% more than in 2019.

Total net operating income amounted to MKD 4,494.2 million, being 4.3% lower than the plan. Compared to the previous year, the total net operating income was higher by 2.0%.

Net interest income

Total net interest income for 2020 amounted to MKD 2,915.5 million and is lower than planned by 7.7%. Interest income compared to the plan is lower by 7.2% generally due to lower balance of loans to legal entities and lower than planned interest rates. Interest expense is lower than planned by 3.5% primarily due to lower interest rates and change of the deposit base in favour of sight deposits.

Compared to 2019, net interest income is lower by 1.7%.

Dominant category in the realized net interest income (65.7% of the total realized net interest income) is **the net interest income from individuals** amounting to MKD 1,915.3 million, which is an increase of 5.1% compared to 2019. The increase is due to a decrease in **interest expenses** by 24.1%, while the **interest income** registered a growth by 1.0% in the regular portfolio. Compared to the planned, net interest income from individuals is lower by 5.6%.

Net interest income from legal entities amounts to 1,064.8 million MKD, or 2.8% less than in 2019, as a result of decrease of **interest expense** by 52.6% (repayment of a subordinated debt). Compared to the planned, net interest income from legal entities is lower by 10.9%.

Net interest margin on average interest-bearing assets in 2020 was 3.02% and is higher from the planned by 0.07 p.p., while it was lower by 0.34 p.p. compared to the previous year.

Net interest margin on average gross assets is 3.66% (2019: 4.01%).

Net non-interest income

Total net non-interest income amounted to MKD 1,578.8 million and compared to 2019 it was higher by 9.7%, due to higher net income from rate exchange differences and other net income. Compared to the plan, the net non-interest income increased by 2.8%.

Net non-interest income in total income accounts for 35.1% (2019: 32.7%).

The largest share of net non-interest income has net fee and commission income with 71.1% (2019: 76.7%)

Net fee and commission income

Total net fee and commission income amounted to MKD 1,122.9 million and is higher compared to 2019 by 1.7%, while compared to the 2020 plan, is lower by 7.2%.

Total fee and commission income compared to 2019 is higher by 0.8% due to higher card income, domestic payment operations, e-banking, higher income from business network services (personal banking, handling of transaction accounts and standing orders), income from investment banking and higher commission income based on issued loans. Compared to the plan is lower by 5.0%.

Total fee and commission expenses are lower by 0.8% than planned for 2020, and by the same percentage lower compared to the realized for 2019 due to lower expenses from commissions from cash operations, lower expenses from payment operations in the country and abroad and from borrowings.

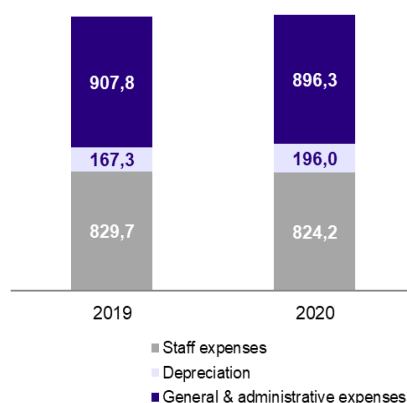
Costs

Total operating costs amounted to MKD 1,916.4 million and compared to the plan were lower by 4.8%, with Staff expenses being lower by 9.0%, Other general and administrative costs being lower by 2.4%, while Depreciation is higher by 3.5%.

Compared to 2019, Total operating costs were higher by 0.6%, whereby Staff expenses are lower by 0.7%, General and administrative costs are lower by 1.3% while Depreciation is higher by 17.1% due to the transfer of certain assets in use.

The ratio of total operating costs to total net income (Cost/Income Ratio) is 42.6% (2019: 43.3%). Compared to the plan, the indicator is lower by 0.3 p.p. (plan 42.9%).

Chart 1. Total operating costs



Balance Sheet and off-balance sheet records

Table 8. Balance Sheet

in mil.MKD		31.12.2020		Structure	Compared to			
		31.12.2019	Budget		31.12.2019	Budget		
	ASSETS	88.176,9	87.110,9	96.545,2	8.368,3	9,5%	9.434,3	10,8%
1	Cash and balances with central banks	14.299,4	11.716,5	15.890,5	16,5%	1.591,1	11,1%	4.174,0
2	Derivatives	0,0	0,4	0,5	0,0%	0,5	/	0,1
3	Loans and advances to banks and saving houses	550,9	722,9	599,5	0,6%	48,6	8,8%	-123,3
4	Loans and advances to customers	54.565,1	59.209,4	57.880,6	60,0%	3.315,5	6,1%	-1.328,8
	Non-financial corporations	20.047,8	21.705,7	20.211,9	20,9%	164,1	0,8%	-1.493,8
	Private	19.615,0	21.417,7	19.939,8	20,7%	324,8	1,7%	-1.477,9
	Public	432,8	288,0	272,1	0,3%	-160,7	-37,1%	-15,9
	Non-profit institutions serving households	14,6	17,6	17,2	0,0%	2,6	17,5%	-0,4
	State	136,9	123,7	58,8	0,1%	-78,1	-57,0%	-64,9
	Households	34.355,4	37.350,9	37.582,3	38,9%	3.226,9	9,4%	231,4
	Other financial institutions	10,4	11,5	10,4	0,0%	0,0	0,4%	-1,1
5	Investment securities	14.966,4	11.577,3	18.060,5	18,7%	3.094,0	20,7%	6.483,2
	held to maturity	10.878,7	5.511,2	16.334,5	16,9%	5.455,8	50,2%	10.823,3
	available for sale	4.087,7	34,3	32,9	0,0%	-4.054,8	-99,2%	-1,4
6	Income tax claims	18,0	0,0	30,9	0,0%	13,0	/	30,9
7	Other assets	1.373,3	1.377,9	1.633,3	1,7%	260,0	18,9%	255,3
8	Foreclosed collateral	193,2	130,5	139,2	0,1%	-54,0	-27,9%	8,7
9	Intangible assets	206,6	380,7	278,2	0,3%	71,5	34,6%	-102,6
10	Property, plant and equipment	2.004,1	1.995,2	2.032,1	2,1%	28,1	1,4%	36,9
	LIABILITIES	88.176,9	87.110,9	96.545,2	8.368,3	9,5%	9.434,3	10,8%
11	Derivatives	0,7	0,1	0,0	0,0%	-0,7	-100,0%	-0,1
12	Deposits from banks and saving houses	619,2	483,3	371,3	0,4%	-247,9	-40,0%	-112,0
13	Deposits from customers	72.259,0	70.837,2	79.408,5	82,3%	7.149,5	9,9%	8.571,3
	Non-financial corporations	17.738,3	14.806,9	20.159,6	20,9%	2.421,3	13,7%	5.352,8
	Private	15.325,1	12.414,1	17.930,0	18,6%	2.604,9	17,0%	5.515,9
	Public	2.413,2	2.392,7	2.229,6	2,3%	-183,6	-7,6%	-163,1
	Non-profit institutions serving households	709,3	620,7	848,8	0,9%	139,5	19,7%	228,0
	State	422,5	138,8	565,2	0,6%	142,7	33,8%	426,4
	Households	52.881,1	53.777,8	57.325,5	59,4%	4.444,4	8,4%	3.547,7
	Other financial institutions	507,8	1.493,0	509,5	0,5%	1,6	0,3%	-983,5
14	Borrowings	644,3	1.006,5	422,4	0,4%	-221,9	-34,4%	-584,1
15	Subordinated debt	1.841,0	1.847,7	1.848,0	1,9%	7,0	0,4%	0,3
16	Provisions	243,2	255,6	255,0	0,3%	11,7	4,8%	-0,7
17	Liabilities for income tax	0,0	185,4	0,0	0,0%	0,0	/	-185,4
18	Other liabilities	926,3	653,7	827,2	0,9%	-99,2	-10,7%	173,4
19	Profit for the year	1.849,9	1.976,3	1.704,3	1,8%	-145,7	-7,9%	-272,1
20	Equity and reserves	9.793,3	9.864,9	11.708,6	12,1%	1.915,3	19,6%	1.843,7

The balance sum of the Bank in 2020 amounted to MKD 96,545.2 million. Compared to 2019, the balance sheet amount is higher by MKD 8,368.3 million or 9.5% as a result of higher balance of loans to individuals and higher investments in securities.

Compared to the plan, it was higher by MKD 9,434.3 million or 10.8%, mainly as a result of higher investment in securities.

Loan activity during 2020, although affected by the Covid 19 pandemic due to difficult operations and delayed payment of liabilities, was a significant driver and was a support for the population and companies.

In assets, the non-banking sector's loan portfolio is higher compared to previous year by MKD 3,315.5 million or 6.1% whereby the most significant is the increase of loans to individuals by MKD 3,226.9 million or 9.4%.

Compared to the plan, the loan portfolio of the non-banking sector is lower by 2.2% than planned for 2020. Loans to individuals are higher than planned by 0.6% or MKD 231.4 million, while loans to non-financial legal entities are lower by 6.9% or MKD 1,493.8 million.

Investments in securities are higher than planned by MKD 6,483.2 million or by 56.0%.

In liabilities, compared to the previous year, there was a significant increase in the total deposit base of MKD 6,901.6 million, through an increase of 13.7% in deposits of non-financial legal entities and 8.4% increase in deposits to individuals.

Observed by the maturity structure, the increase stems from the increase in total sight deposits.

Borrowings, compared to 2019 decreased by 34.4%, while compared to the plan they were lower by 58.0%, due to repayment of funds from credit lines through the Development Bank of North Macedonia and the Macedonian Enterprise Development Foundation.

V. Sales channels and digital transformation

Covid-19 crisis imposed the need and opportunity to implement activities that further strengthened the digitalization process. In conditions of difficulty of physical presence and limited movement of clients, the benefits and facilitations offered by the digital channels of the Bank were intensively promoted. A series of promotional activities were realized, video tutorials for the use of digital channels were created, educational instructions for work, as well as adaptation of the product offer. These activities contributed to enhanced digitalization and increase the number of active digital users for 30.700 clients - individuals and legal entities, as well as increasing the share of electronic orders in total orders by over 100% for individuals and over 2% for orders for legal entities. Also, during the year, a number of new digital functionalities were introduced: Pay a friend's account and Share an account - a functionality with which funds can be transferred to users' accounts by simply selecting the person's name from the telephone contact list. Mklik loan was promoted - the only online credit on the market with a fully digital and automated process for loan application and payment, and the option to update customers' personal data through a solution of the mKlik application was introduced.

Branch network

The main channel for servicing customer and sale of products and services of the Bank is the **branch network** (50 branches and 2 counters), through which in 2020 were disbursed 58% of the total number of household loans. In addition to household loans, loans for micro and small enterprises were disbursed through the Bank's business network, payment services were provided to individuals and legal entities, personal banking service was available, and other financial and advisory services to the Bank's clients were provided.

Additionally, during 2020, the following activities were successfully implemented through the sales network: Public offer and the two offered moratoriums for clients who had credit exposure, support for clients in the government measure for making state payment cards in order to financially support socially disadvantaged categories of clients, payment to the deponents of Eurostandard Bank and payment to the beneficiaries of the fourth set of state aid measures.

In August 2020, a new branch office was opened in Skopje - Taftalidje. The new branch office serviced the population and legal entities segment, offering comprehensive banking services, equipped according to the most modern technological and security standards, as well as a 24-hour self-service zone with "Cash in" ATM. During 2020, the Karposh 4 branch office was closed.

Despite the emergency circumstances due to the Covid-19 crisis, the sales network throughout the whole 2020 operated without interruption by properly adjusting the working hours of the branches and in accordance with the measures in force. Appropriate preventive measures were applied for protection of the health and safety of the employees and the clients of the Bank, a waiting order was established, enhanced security. In that way, continuity in the operation and successful customer service was ensured.

Credit intermediaries

Sales through **credit intermediaries** is important channel for the sale of credit products, and the Bank is the only bank on the market which offers this service with a fully automated process, whereby during 2020 a sale of 13.800 loans is realized or over 42% of the total number of loans paid to individuals in 2020.

In 2020, it was enabled to pay the cost for approval in instalments by calculating it in the annuity, i.e. payment through the monthly instalment.

Contact center

During 2020, the Contact center also played a significant role in providing the necessary information and services to customers. The need for timely and quality service while restricting customer movements as a result of restrictive measures due to the Covid-19 pandemic intensified the activities of the Contact center.

About 50% of the annual engagement in 2020 of all employees in the **Contact center** (incoming and outgoing telephone calls, individual communication with clients via e-mail, mass SMS and telephone campaigns) was caused by the three activities of the Bank: extending the repayment deadlines of customer's credit liabilities, the introduction of the domestic payment card and the mass updating of customer data.

The rest of the engagement was for all other regular activities of the Contact center in the part of servicing all incoming and outgoing calls with clients on various issues, management of complaints, praises and complaints from clients; various informational, marketing and to a lesser extent paid SMS and e-mail performed campaigns. Increased engagement in the processing of online applications for loans and cards, as well as in the processing of online applications for mobile banking has been noticed.

Electronic and mobile banking

The **NLB mKlik mobile banking application** was enriched with new functionalities and a new user interface, making it more intuitive and comprehensive, and at the same time more secure. In this regard, in 2020, a number of new services were offered such as Pay a friend's account and Share an Account - a service that offers quick and easy transfer of funds or sharing an account by simply selecting the person's name from the telephone contact list. A novelty is the introduction of Mklik loans - a complete online and automated process for applying and paying consumer loans that adds value to mobile banking and elevates it as a channel through which customers will be offered a comprehensive offer of all banking products and services. In the conditions of Covid-19 pandemic on the market, and in accordance with the legislation, it was possible to update the clients' personal data through the mobile application. Additionally, during 2020, a series of promotional and educational activities were implemented to redirect customers to digital channels. In order to better clients' introduction with the digital channels of the Bank in conditions of Covid-19 pandemic, the commissions for individuals for using mobile banking and for realization of orders through e-banking were temporarily abolished. This measure produced an increase in the number of mobile banking users by about 38% or over 44.000 users in 2020. The increased number of users had a positive impact on both the turnover and the number of electronic orders, which reached an increase of over 100% in realized orders from individuals.

ATM and POS network

In order to be closer and more accessible to its customers, the Bank acted in the direction of renewal of its ATM network, where the total number of ATMs on the territory of RNM in 2020 is 172 ATMs, 90 of which are with cash payment functionality (Cash in ATMs). Also, the possibility of contactless cash withdrawal has been introduced, as an additional functionality, and currently 107 ATMs have this option. The turnover through the **ATM network of the Bank** in 2020 reached MKD 40.4 billion (EUR 656.4 million) or 2.0% more compared to 2019. Turnover via the Bank's POS network increased by 24.7% compared to 2019.

During 2020, the Bank continued the trend of expanding the POS network with terminals that enable contactless payment. Also, the entire POS network of the Bank was replaced with GPRS and LAN terminals, while the terminals that used Dial Up communication network were completely withdrawn from use. As of 31.12.2020, the Bank has a network of 6.965 POS terminals.

Significant increase was realized in the operation of the Internet payment platform of the Bank, whereby the number of traders that realized turnover increased by 57%, while the turnover compared to 2019 increased by 174%. In order to provide additional protection to the users of the internet payment platform, the Bank has introduced a 3-D Secure protocol, which provides an additional level of security for online payments.

VI. Activities with Individuals

The Bank's activities during 2020 were adjusted to the situation caused by the Covid-19 pandemic, although the focus of the Bank's operations was to increase market share by adapting the product offer on the Covid-19 crisis, maintaining the quality of the loan portfolio, enabling quality and timely service and digital transformation of the Bank and its clients.

Loans

The loan offer in 2020 was enriched with new promotional consumer loans with decreased interest rates, increased periods of validity of the fixed interest rate of 35 months, as well as increased maximum loan amounts.

In the case of housing loans, promotional housing loans were introduced for salary recipients and users of personal banking service, whereby a repayment period of 35 years was introduced for the first time and a fixed interest rate period of 10 years as well as decreased interest rates.

In 2020, promotional mortgage loans with reduced interest rates were introduced.

Following the current trends and oriented at digital transformation, the Bank in 2020 introduced the NLB mKlik loan, which is a consumer loan placed through mobile banking, i.e. is characterized by a fully automated online loan approval process and is intended for customers who are recipients of salary / pension in the Bank and who are also beneficiaries of NLB mKlik mobile banking. The promotion of this loan is a revolutionary and very important step in the digitalization process because in this way customers for the first time have the opportunity to apply and use the loan completely online without any need for physical presence or visiting a branch office.

During 2020, special consumer and housing loans were introduced for the Bank's employees with more favourable terms than the standard ones, in order to improve the benefits for the employees and to strengthen the loyalty and the sense of belonging.

In addition, earmarked energy efficiency loans were introduced from the EBRD credit line for individuals and legal entities, intended for individuals who own or live in a house or apartment in which they plan to implement the investment and achieve energy efficiency and cost reduction for electricity/heating/cooling. Together with the European Bank for Reconstruction and Development (EBRD), through the credit line for legal entities Competitiveness +, NLB Bank provided support to the competitiveness of micro, small and medium enterprises.

In 2020, new benefits were offered for existing products, which aimed to simplify and shorten the approval processes. In that direction, several campaigns were conducted for pre-approved overdrafts on transaction accounts and for pre-selected consumer loans through the Bank's branch offices. Given the quick and simple way of approval, without additional documentation and implementation of the decision at the time of sale, and through an offer tailored to each individual client, such campaigns have resulted in a high degree of success and customer satisfaction. In order to more easily overcome and mitigate the negative effects caused by the Covid-19 pandemic, the Bank has taken special measures to support all its customers, individuals, through special conditions to facilitate the repayment of all credit exposures: loans, credit card limits and transactional accounts.

For this purpose, an offer was submitted to all individuals - clients of the Bank (including pensioners), who have credit exposures that on 29.02.2020 are classified in risk category A, B or C and do not have the status of non-performing credit exposure, which enabled the postponement of the payment of monthly liabilities for loans and credit cards for a period of up to 6 months, and no later than 30.09.2020.

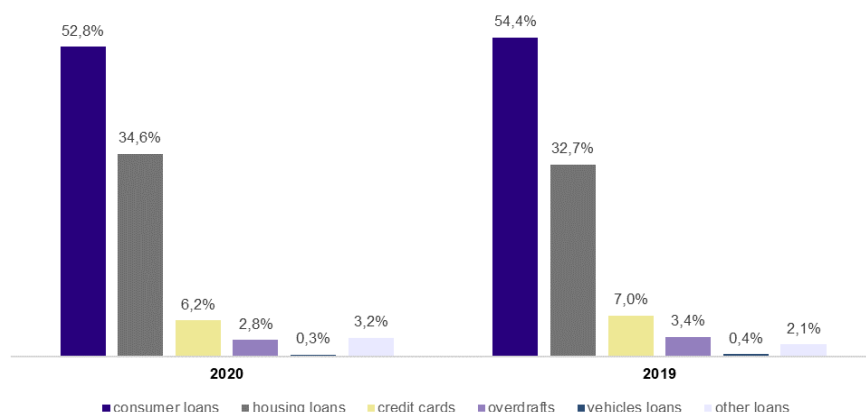
The offer for deferral of credit liabilities was accepted by almost 70% of the clients with credit exposure, i.e. 62% of the credit portfolio for loans and 60% of the credit cards portfolio were deferred.

Given the continuing side-effects of the Covid-19 pandemic on the economy, as well as on individuals, banks at the level of the Macedonian Banking Association and in consultation with the NBRNM provided a new additional delay, but only for individuals who have a real, valid and necessary need: lost their job, had a reduced monthly income, had high medical expenses, etc. The offer enabled a new extension for a period of 6 months, and no later than 31.03.2021, for all credit exposures (loans, credit cards and overdrafts on transaction accounts) of the users of credit

exposures affected by the consequences of the Covid-19 pandemic, regardless whether customers are already using payment deferral or would be using this opportunity for the first time. The second offer for deferral of credit liabilities was accepted by 2.13% of the eligible customers and 8.03% of the total credit portfolio for loans and credit cards were deferred.

The loan portfolio of individuals on an annual basis has increased by 9.4%, i.e. by MKD 3.307,0 million, amounting to MKD 38.671,9 million, with the highest growth of 15.9% compared to 2019 being realized in housing loans, and 6.2% growth realized in consumer loans. The share of gross loans to individuals in the total gross loans of the Bank to the non-banking sector in 2020 reached 61.6% (2019: 59.5%).

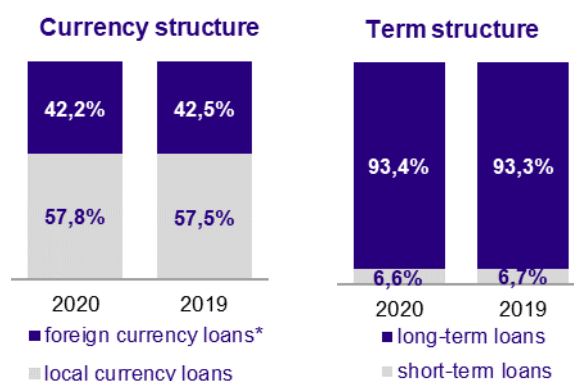
Chart 2. Share of loan products in the total loan portfolio of individuals



*only loans to residents – individuals are included, without sole proprietorships

As of 31.12.2020 the Bank realized a **market share** of 20.8% (2019:20.5%). Analysed by credit products, the increase in market share is a result of the increase in housing loans and credit card limits.

During the year, the Bank applied a cautious approach in approving credit exposures, which contributed to the quality of the loan portfolio to be stable throughout the year. Along with the Contact center payment activities, the payment agency services were also used for the so-called mass products (consumer loans and credit cards), which affected the low participation of **non-performing loans** in the total loan portfolio. 1.45% of total credit exposures to households are non-performing claims (2019:1.6%).

Chart 3. Structure of loans to individuals

*Loans with FX clause are included in FC loans

Deposits

The increase of the deposit base realized in 2020 is generally a result of the increase of the number of clients - salary recipients in the Bank, as well as of the increase of the number of pensioners of the Bank.

The growth of deposits in times of continuous reduction of interest rates primarily is due to the increase in the number of transaction accounts, and thus on sight deposits, while term deposits decreased by 7.5% compared to the previous year.

Although, during the year, the structure of deposits changed in favour of sight deposits, the Bank maintains a balanced maturity position of deposits, contributing to stable sources of financing the lending activity.

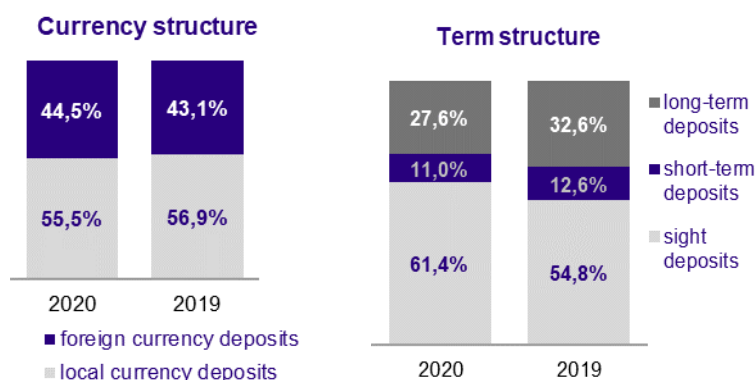
Interest rates on deposits were reduced several times, ranging from 0.01% to 0.4%.

A monthly setting of interest rates for newly opened long-term variable deposits related to national reference interest rate (NRIR) was introduced, with each newly opened variable deposit receiving an interest rate calculated on the NRIR valid for the month when the deposit was opened.

Deposits from individuals compared to 2019 increased by 8.4% or MKD 4.444,4 million, amounting to MKD 57.325,5 million.

The share of household deposits in the total deposits of the non-banking sector with the Bank for 2020 is 72.2% (2019: 73.2%).

The Loans/Deposits Ratio from individuals is 67.5% (2019: 66.9%). The **market share of deposits from individuals** as of 31.12.2020 is 19.9% (2019: 19.1%).

Chart 4. Structure of deposits from individuals

Card operations

The focus of the Bank during the year was to meet the goal of maintaining the leading position in the market in the field of **card operations** by increasing the turnover through cards, the number of issued cards, expanding the network of POS terminals and improving the functionality of the ATM network. The activities were aimed at enriching the functionalities of the existing card products, in order to increase the number of users and the activation of the cards and to increase the volume of use of the Bank's payment cards.

In order to increase the activation and use of the cards, the Bank realized promotional campaigns by doubling the return of funds on MasterCard Happy cards or by certain rewarding the cardholders. Two Visa and MasterCard campaigns were launched to support the economy affected by Covid-19 and to support online teaching classes. As part of the campaign realized with Visa cards, cash vouchers were awarded to Visa card users who have the opportunity to use them to buy at points of sale from businesses that have suffered negative effects of the crisis. Within the MasterCard campaign, EUR 30.000 were awarded, which will be used through public voting to provide the necessary equipment (laptops) for conducting online education for children from socially disadvantaged families.

To help the most affected categories of the population, the Bank was a participant in the project led by the Government of RNM for issuance of Domestic payment card, where the Bank successfully issued and delivered to end users more than 105.000 cards. The delivery of the cards was done directly to the home address of the users.

Campaigns were launched to sell new cards and increase credit card limits through ATMs.

Other services of the Bank

Personal banking is a special offer of the Bank that provides clients with first-class treatment in the performance of banking services, flexibility and simpler communication through a personal banker.

During 2020, the personal banking service for individuals was offered in 42 branch offices, and the total number of clients-individuals who used the service in 2020 increased by 1.1%.

A significant part of the Bank's wide offer is **NLB Bank Insurance** or the sale of life and non-life insurance policies.

In 2020, the Bank continued to actively work on promoting the sale of insurance policies by adjusting the product offer according to the situation caused by the Covid-19 crisis. In order to increase sales, in the part of cross-selling of risk policies for life insurance with a loan, an option for payment of a lower amount (not less than 50%) of the premium for risk policies was introduced. Different types of additional insurance (from accidents, malignant diseases, surgeries, etc.) were introduced with risk insurance policies. At the same time, as part of the offer was life insurance with a savings component related to loan, a product that will be actively included in the Bank's offer from 2021, as well as insurance for the co-borrower.

Despite the situation with the Covid-19 pandemic, significant results have been achieved through the **cross-selling** of loan and insurance products from non-life accident insurance for each consumer, housing, mortgage and vehicle loan, as well as household insurance with wide coverage, as compulsory insurance for each property which is collateral for placed housing and mortgage loans.

VII. Activities with legal entities

Working with legal entities³ as a significant holder of the Bank's income includes: short-term MKD and FX loans for current needs, short-term MKD and FX credits to support export arrangements, revolving loans, long-term MKD and FX loans to finance small and medium-sized enterprises investment projects, car loans, earmarked loans for construction of residential and commercial premises, commission loans, letter of credit and guarantee operations, deposit operations, domestic and international payment services, and cash transfer and storage services.

Bank's offer for legal entities is implemented centrally, following the model of integrated client relationship management - for the Bank's large corporate clients and dispersed through the Sales Network - for SMEs, while corporate clients' payment services are provided through the Bank's Sales Network, the Cash Services and Depot Division and through the electronic channels.

Behind the good results in the working with legal entities segment in 2020 is above all the readiness of the Bank to provide support to the companies in conditions of economic and health crisis that was part of our daily life during the year. Numerous sales activities and market initiatives through which SMEs and large companies have been offered credit products for long-term investment projects and working capital, possibility for short term and fast financing through permissible transaction account limit, 24-hour payment services through the Bank's electronic channels, cash management, financial services and counselling for corporate clients active on the regional markets where the NLB Group is present, financial benefits for export-oriented companies, as well as capital market transaction advisory services, were realized.

Products and market shares

Loans

In the area of **lending**, the activities were aimed at increasing the focus on working with small and medium-sized enterprises, where there is high absorption power, greater risk dispersion and a basis for achieving higher interest and non-interest income, primarily in order to maintain and increase market positions. During 2020 new products for legal entities were promoted, some of which in the form of package credit products for clients:

- "Competitiveness +" - from the credit line from the European Bank for Reconstruction and Development (EBRD) to support the competitiveness of small and medium enterprises (SME) Competitiveness Support Program - Republic of North Macedonia under Financial Intermediaries Framework.

In order to increase the attractiveness of the offer, periodically, within the promotional campaigns, lower interest rates were offered for certain products for small, medium and large enterprises, which were approved without commission in the promotional period. In this regard, the following promotional campaigns were conducted:

- Promotional campaign for approval of Overdraft - allowed account overdraft of legal entities in the period from 10.10.2020 to 31.12.2020, in order to increase the placement of loans and adequate response to the offer of competing banks and further stimulate the campaign for Master Business cards, under which all loans were approved without commission. The interest rates during the year were adjusted to the market conditions in order to bring the Bank's offer closer to the clients, as well as to meet their needs for easier overcoming of the economic crisis caused by the Covid-19 pandemic.

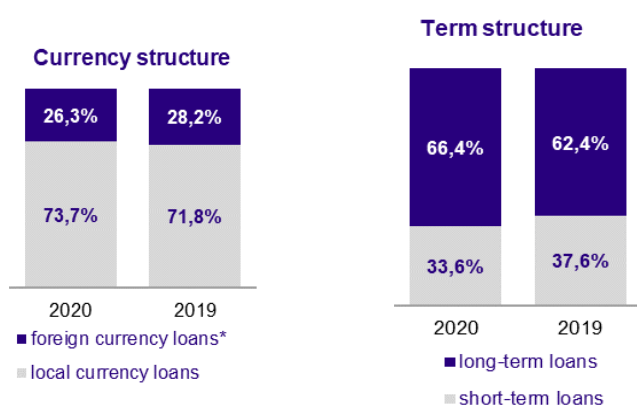
³ The positions of the Financial Statements in the Annual Report are consistent with those of the Bank's Financial Statements prepared in accordance with the NBRNM methodology, except where it is necessary to present a clearer presentation. The differences are of a presentation nature, while the final positions (profit and total assets/liabilities) do not differ.

- Pre-approved loans for companies with B and better rating according to the financial capacity, the Policy for approval of placements and the pre-scoring model.
- Based on decree with legal force brought by the state, during 2020 moratoriums too were implemented - delaying the payment of loan obligations to legal entities, in order to alleviate the negative effects and consequences of the global pandemic caused by Covid-19 on the real sector.

As of 31.12.2020 **loans to legal entities** amounted to MKD 24.119,2 million, being an annual growth of 0.2% i.e. MKD 54.5 million as a result of the increase of placements with public and private enterprises during the year.

In 2020, the share of non-performing loans in total loans to legal entities increased to 8.5% (2019: 8.3%), as a result of the transfer of several corporate clients to non-performing. The share of gross loans to legal entities in the total gross loans to non-banking sector is 38.4% (2019:40.5%).

Chart 5. Structure of loans to legal entities



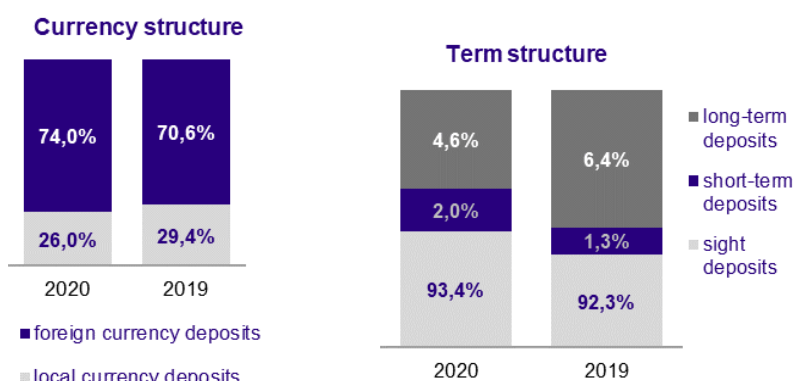
Deposits

In the field of **deposit operations**, the offer for corporate clients was presented through MKD and FX deposit products with different term opportunity and interest rates. During 2020, the Bank didn't make any changes in the interest rates on deposits of legal entities.

Deposits from legal entities amounted to MKD 22.083,0 million annually and were higher compared to 2019 by MKD 2.705,1 million or 14.0% mainly due to higher gyro account balances and sight deposits of private companies.

The share of deposits of legal entities in the total deposits of the Bank's clients in 2020 is 27.8% (2019: 26.8%).

Chart 6. Structure of deposits to legal entities



Loans (gross)/deposits ratio from legal entities is 109.2% (2019:124.2%).

As regards **market shares**, the market share in loans of nonfinancial legal entities is 14.2% as of 31.12.2020 (2019:14.4%) while market share at deposits was increased for 0.6 pp. with the participation of 16.3% (2019:15.7%).

Domestic and foreign payment operations ⁴

In the **domestic payment operations** segment, in 2020 total turnover of MKD 919.4 billion was realized. (MKD 989.7 billion for 2019).

In 2020 **foreign currency payment operations** were realized in an amount of EUR 2.3 billion or 1.8% less than in 2019, as a result of decreased turnover in nostro remittances from legal entities.

Table 9. Remittances

	01.01.- 31.12.2019	01.01.- 31.12.2020	Change 2020/2019	
Nostro remittances				
Turnover (mil. EUR)	1.235,2	1.164,9	-70,3	-5,7%
Individuals	27,7	33,3	5,6	20,3%
Legal entities	1.207,5	1.131,5	-76,0	-6,3%
Number of nostro remittances	68.784	64.762	-4.022	-5,8%
Individuals	7.950	7.958	8	0,1%
Legal entities	60.834	56.804	-4.030	-6,6%
Loro remittances				
Turnover (mil.EUR)	1.153,6	1.181,1	27,5	2,4%
Individuals	101,9	112,8	10,9	10,7%
Legal entities	1.051,7	1.068,3	16,6	1,6%
Number of loro remittances	123.091	127.343	4.252	3,5%
Individuals	62.126	69.698	7.572	12,2%
Legal entities	60.965	57.645	-3.320	-5,4%

Other Bank's services

The Bank participates in international payments by issuing documentary instruments to its clients. And in 2020 the Bank granted **bank guarantees and letters of credit** according to the clients' needs. In 2020 the Bank has issued guarantees in the amount of MKD 5.195,3 million, which is 32.9% less than in 2019. The open letters of credit are worth MKD 1.642,4 million and are 1.2% lower than in 2019.

Table 10. Documentary work

		01.01.- 31.12.2019	01.01.- 31.12.2020	Change 2020/2019	
Guarantees					
Value of issued during the year (mil. MKD)	7.745,6	5.195,3	-2.550,3	-32,9%	
Number of issued during the year	3.589	3.040	-549	-15,3%	
Letters of credit					
Value of issued during the year (mil.MKD)	1.662,3	1.642,4	-19,9	-1,2%	
Number of issued during the year	298	268	-30	-10,1%	

The decline in documentary instruments is a result of a smaller number of received loro-guarantees, as well as issued nostro-guarantees in smaller amounts compared to the guarantees issued in 2019.

The Bank provides services for the needs of other legal entities in the area of **cash management**: cash transport and value consignments, processing of domestic and foreign currency, foreign cash transfer to foreign banks, cash and securities storage, depot services, purchase and sale of domestic and foreign cash, servicing ATMs for other business banks, supplying MKD cash in

⁴ The data on the total payment operations include the transactions by individuals

exchange for F/X cash for an exchange office, taking over the daily sales from the premises of legal entities and transport them to the Bank, processing banknotes and coins and depositing on the transaction account of the legal entity.

In 2020, despite the specific conditions of the pandemic caused by Covid-19, the Vault of the Bank successfully coped with the challenges, provided continuity of operations for both branch offices and customers, thus successfully playing its systemic importance and amortizing the negative consequences.

During 2020, gross turnover of the Bank's Central Vault amounted for MKD 4.2 billion, which is a decrease of 19% compared to 2019. The decline of its operations is due to the negative effect of the Covid-19 pandemic which caused a decrease in all segments - MKD and F/X withdrawals and subsidies. Growth was realized only in the part of ATM operations.

In the area of work with legal entities (effective collection from locations, transportation, processing and payment on transaction accounts), the Bank has expanded its cooperation with a new legal entity. The share in the processing of the daily market from legal entities by the Central Vault of the Bank is 42% on average for the whole 2020.

VIII. Financial markets

Liquidity management

During 2020, the Bank managed MKD and FX liquidity in accordance with the laws and bylaws regulating liquidity risk management and the acts applicable at the level of NLB Group, while respecting the defined regulatory and internal liquidity risk exposure limits.

The free assets were placed in securities issued by the government and the NBRNM, on the domestic and foreign capital market, on the interbank deposit market, as well as through the NBRNM monetary instruments. The type, manner and instruments used to place the surplus are determined by the current and expected maturity structure of the short- and long-term assets and liabilities, the risk of the instruments and the interest rate movements in the money and securities markets.

Debt Securities 31.12.2020

12,557 mil.MKD nominal value in debt securities

1,694 mil.MKD treasury bills

52.8 mil.EUR in Eurobonds

The Bank's obligation reserve requirement in MKD and in foreign currency was fulfilled on a regular basis in the period from 01.01. – 31.12.2020. Structural liquidity indicators, including indicators under the Basel III - LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), were maintained above the prescribed minimum levels during 2020, indicating a consistently stable and high liquidity position of the Bank throughout the year.

On the interbank' deposit market, the Bank appeared as a seller or buyer depending on the daily needs of the funds, as well as the strategy and manners of liquidity management in a given period.

During 2020, the Bank also invested in government securities issued on the international capital market - Eurobonds in the total nominal amount of EUR 22.8 million.

Credit sources of financing

During 2020, the Bank continued to continuously monitor and service its liabilities under concluded credit arrangements with domestic and foreign creditors, as well as withdrawing new funds for financing investment projects and for working assets.

During the year, MKD 329 million were repaid by separate credit lines, with withdrawal of funds in total amount of MKD 95.0 million, after which the balance of the Bank's credit liabilities as at 31.12.2020 decreased by 34% compared to previous year.

In September 2020, the Bank concluded an Agreements with the European Bank for Reconstruction and Development (EBRD), for credit lines that provide financial incentives for clients who will successfully implement projects, as follows:

- long-term loan in the amount of EUR 3 million, intended for energy efficiency in the residential sector in the Western Balkans (Western Balkans Green Economy Financing Facility - WB GEFF - Residential).
- long-term loan in the amount of EUR 5 million, intended to support the competitiveness of small and medium enterprises (Regional Small & Medium-sized Enterprises Competitiveness Support Programme).

In 2020, funds are withdrawn from the following credit lines:

- European Bank for Reconstruction and Development (EBRD) - two tranches of the Western Balkans Green Economy Financing Facility – WB GEFF – Residential credit line in total amount of EUR 0.6 million (MKD 37.0 million) intended for further financing of energy efficient projects in the residential sector, i.e. for individuals or groups of individuals, housing associations and housing management companies, service providers (including ESCO), vendors and manufacturers;
- European Bank for Reconstruction and Development (EBRD) - two tranches of the Regional Small & Medium-sized Enterprises Competitiveness Support Programme credit line in the total amount of EUR 0.88 million (MKD 54.8 million), intended for further financing of investments of legal entities in industrial facilities, equipment, software, improvement of the management systems of the enterprise or general upgrade created for the promotion of one or

more EU Directives in the field of environmental protection, employee safety and product quality and safety, as well as investment in high-performance technologies;

- Agricultural Credit Discount Fund (ACDF) (credit line arranged through the Development Bank of North Macedonia) for financing projects in the primary production segment, processing of agricultural products and trade in agricultural products in the amount of MKD 3.1 million.

Commission operations

During 2020, the Bank continued to implement the project "Self-employment with lending", as an active self-employment measure implemented by the Employment Agency of the Republic of North Macedonia, following a concluded contract in May 2008 with the Development Bank of North Macedonia.

Throughout the year, the Bank mediated the financing agreements with funds from the Macedonian Enterprise Development Foundation, the Agricultural Credit Discount Fund and other institutions in concluding new commission credits and deposits, as well as servicing the existing ones.

Foreign exchange market

In 2020, the Bank realized total turnover on the foreign exchange market in the country in the amount of USD 2,446 million (2019: USD 2,682 million) realized through 71,139 transactions (2019: 85,172), a decrease of turnover by 8.80%. Most of the Bank's turnover on the foreign exchange market relates to euro currency purchase and sale, with a percentage share of 58.56% in purchasing and 88.82% in sales. The Bank's market share on the foreign exchange market as at 31.12.2020 is 24.89%

In terms of increased competition and increased number of trading participants, the Bank remains the market leader in the trading with foreign exchange from authorized exchange offices. In 2020, a purchase amounting to EUR 429 million (2019: EUR 698 million) was realized, which represents 61.50% of the total purchase of foreign currency from authorized moneychangers by banks in the country.

There are 2 new contracts with clients for their use of the electronic Trading platform on the FX market, bringing the total number of clients using the Platform as of 2020 to 74.

On the interbank FX market, in 2020, the Bank successfully performed the role of an authorized market supporter, through active participation with stable quotations on both the supply and demand side. In 2020, the Bank realized a share of 35.89% in the total interbanking foreign exchange market turnover in the country.

On the international foreign exchange market, EUR 997.5 million (2019: EUR 1,510.0 million) were traded through 8,762 purchase and sale transactions (2019: 11,995).

Trading in securities on behalf of the Bank's clients

In 2020, the Bank on behalf of the clients recorded MKD 20,891.5 million of government securities, which is a decrease of 2.63% compared to 2019 when the amount of MKD 21,456.8 million was recorded. Of the total amount, 23% (MKD 4,821.0 million) were realized through auction of government bonds, and 77% (MKD 16,070.5 million) were auctioned with treasury bills.

Custodian and brokerage services

Custodian services

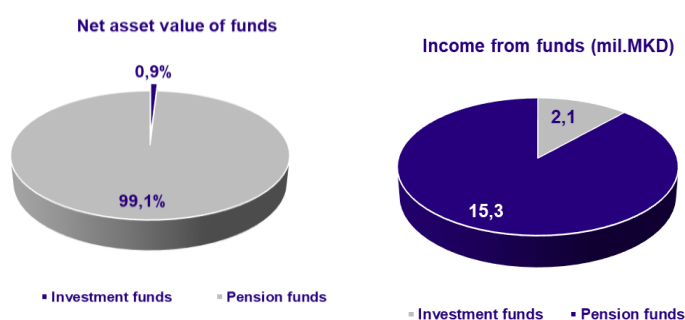
During the year, the Bank provided custodian services for investment and pension funds, for non-residents trading on the Macedonian securities market, and for domestic clients investing in FX securities.

As a custodian bank the Bank provides services to two pension funds and as a depository bank to four investment funds.

The total income of the Bank from the investment funds in 2020 amounted to MKD 2 million, which is identical with the income realized in 2019, while the total pension fund income realized in 2020 amounted to MKD 15.3 million and represents an increase of 44% compared to 2019 (2019: MKD 10.6 million)

The number of transactions of clients under custodian services during 2020 is 2,840.

Chart 7. Net asset value and income



Funds through numbers

Investment funds

484 mil.MKD total assets

Pension funds

41,653 mil.MKD total assets

Brokerage services

Total turnover on the Macedonian Stock Exchange in 2020 reached MKD 8.2 billion, which represents an increase of 6.6% compared to the previous year as a result of decline in classical stock trading by 42.1%.

Domestic legal entities and individuals had dominant share in the trading in 2020 both on the purchasing and selling side.

The Bank's market share in the total turnover of the Stock Exchange amounted to 8.05%, which is a decrease by 2.49 p.p. (2019: 10.54%). According to the realized turnover with block transactions, there was a decline in the market share which is 3.55% for 2020 (2019: 17.36%). The Bank ranks fourth on the list of market shares of the Stock Exchange members, according to its share in the total trading.

After the introduction of the securities trading and securities storage service in foreign markets, interest in the service, especially since March, has experienced a large increase. As of December, nearly 150 clients have signed an agreement with the Bank for these services. A total turnover of MKD 537.8 million was realized (2019: 81.7 million MKD), and revenues based on trading in the amount of MKD 4.5 million. The total value of the portfolio in foreign securities, which the Bank keeps for the account of the clients as of 31.12.2020 is MKD 229.9 million (2019: MKD 51.7 million).

During 2020, the Securities Services Department mediated in two procedures of takeover of joint stock companies, one of which ended with a successful 'squeeze out' through which the takeover acquired 100% of the shares of the target company. The Department also mediated in one procedure for issuing shares through a public offering in a total value of MKD 73.8 million, whereby all offered shares were successfully registered.

Macedonian Stock Exchange 31.12.2020

Total turnover on the MSE: 8.2 billion MKD

Bank's market share: 8.05%

Foreign markets 31.12.2020

Total turnover: 537.8 mill.MKD

Value of portfolio of foreign securities: 229.9 mill.MKD

IX. Risk Management

The Bank implements a highly conservative policy of anticipating operating risks by maintaining an effective system of integrated risk management. This enables high collectability of loans, satisfactory levels of capital adequacy, protection from unforeseen events and possible threats of failure to implement the planned policy, to be realized. During the year, the Bank revised its Strategy for undertaking and managing risks and policies in the field of risk management and made alignment with Risk Management Standards adopted by NLB d.d.

Credit risk management and quality of the loan portfolio

Credit risk management includes permanent analysis of the Bank's loan portfolio, in regard to division's diversification and concentration of the portfolio, analysis and evaluation of client's financial performance, monitoring the regularity in fulfilling the obligations by clients and applying a satisfactory level of loan provisions.

The Bank's total exposure (portfolio on which provisions are calculated) in 2020 increased by MKD 8,999.0 million and amounts to MKD 79,679.7 million (2019: MKD 70,680.7 million). The share of A and B loans in the total portfolio on which reservations are calculated at the end of 2020 was 95.3% (2019: 94.8%).

The share of nonperforming loans in total loans in 2020 was 4.2% (2019: 4.3%).

The loans coverage rate with provisions decreased by 0.7 p.p. and amounts to 6.4% (2019: 7.1%).

The coverage of loans classified in C, D and E risk category with total allocated reserves amounts to 136.9% (2019: 136.8%).

During 2020, in order to overcome the negative consequences of Covid-19, and in accordance with the amendments to the regulation, the Bank approved the postponement of liabilities based on credit exposure of legal entities and individuals that met the defined conditions.

Loan portfolio 31.12.2020

Portfolio on which provisions are calculated: MKD 79,679.7 million

Share of A and B loans: 95.3%

Share of nonperforming loans: 4.2%

Coverage rate with provisions: 6.4%

Coverage of C, D and E risk category loans: 136.9%

Non-Credit Risks Management

The Bank has established policies to monitor non-credit risk. The Bank monitors and manages liquidity, currency, interest, operational, legal, strategic and reputational risk, and at the same time information system security is monitored and managed.

Liquidity Risk Management

In 2020, liquidity risk exposure was monitored on a regular basis. Operational and structural liquidity was within the established limits and warning levels.

During 2020, stress tests on the Bank's exposure to liquidity risk were conducted on a monthly basis, indicating a high and stable liquidity position of the Bank. According to the results of the conducted stress testing on the liquidity risk, the Bank has sufficient CBC (counterbalancing capacity) and inflows to cover outflows and survive a period of 3 months in conditions of adverse combined stress scenario.

The liquidity position during 2020 enabled timely and smooth servicing of the Bank's liabilities.

Foreign currency Risk Management

Currency risk management refers to the continuous monitoring of the Bank's net exposure by separate currency and aggregate, while maintaining an optimal level of required funds through the purchase and sale of foreign currency.

The Bank's exposure to currency risk is monitored on a daily basis by monitoring the realization in relation to the limits set by separate currency and on aggregate basis. During 2020, the Bank adhered to the set currency risk limits (limit: +/- 30% of common capital).

The total open currency position calculated on a net basis on 31.12.2020 represents a long position and amounts to MKD 1,128 million, i.e. 11.33% of the Bank's common capital.

The largest part of the open currency position comes from the long position in the EUR currency, amounting to MKD 1.066 million or 10.71% of the Bank's common capital. In 2020, stress tests of the Bank's exposure to currency risk were conducted on a semi-annual basis, with the capital adequacy ratio being stable and satisfactory, applying the most conservative scenario.

Interest Rate Risk Management

The Bank's activities in the area of interest rate risk management relate to the optimization of the economic value of the capital and net interest income in relation to changes in market interest rates that are consistent with the Bank's business strategy.

In terms of sensitivity of the economic value of capital, the Bank monitors the interest rate risk exposure by applying the new Interest Risk Management Methodology, which includes: new methodology for calculation and allocation of 'Core' sight deposits, where they are distributed in appropriate maturity blocks, in period of 10 years; new elements in interest rate risk management (non-performing exposure, off-balance sheet exposure, before due date credit repayment rate and automatic options) and new regulatory prescribed scenarios (parallel shock up + 200bp/400bpMKD; parallel shock down - 200bp/400bpMKD; steep shock; downward shock; short-term shock upward and short-term shock downward). The Bank's total exposure to interest rate risk represents the largest negative value of the EVE (Economic Value of Equity) indicator of the six regulatory prescribed scenarios. The Bank's total interest rate exposure as at 31.12.2020 amounted to MKD 440 million, i.e. 4.42% of the Bank's common capital, based on the EVE indicator in the parallel shock up + 200bp/400bpMKD.

Interest Rate Risk indicators 31.12.2020

EVE (Economic Value of Equity): 4.42%

NII indicator: 4.44%

Total Weighted Value/Own Funds: 16.0%

In terms of the sensitivity of net interest income, the Bank measures the impact of interest rate changes on net interest income over a period of one year, assuming a parallel increase in market interest rates by 100 basis points. The Bank's sensitivity indicator of net interest income (NII indicator), on 31.12.2020 amounted to MKD 211 million, i.e. 4.44% of the Bank's own funds.

In accordance with the new Interest Risk Management Methodology, the Bank calculates and monitors the "credit spread" risk exposure (CSRBB), which represents the risk of change in the value of debt securities as a result of changes in the credit margin on the market. The Bank's exposure to credit spread risk (FV-OCI portfolio) on 31.12.2020 amounted to MKD 133 million, i.e. 1.34% of the Bank's common capital; the Bank's exposure to credit spread risk (FV-OCI and AC portfolio), on 31.12.2020 amounted to MKD 441 million, i.e. 4.44% of the Bank's common capital. Total Weighted Value/Own Funds indicator, throughout the year 2020 was within the prescribed limit of 20% of the Bank's own funds, in accordance with the NBRNM's Decision for the interest rate risk change management in the banking book. Total Weighted Value/Own Funds indicator on 31.12.2020 amounted to 16.00% of the Bank's own funds.

Based on monthly monitoring of the fulfilment of the interest rate exposure limits, it is established that during 2020, the calculated BPV and CSRBB indicators, the NII indicator and all other indicators defined in the Interest Rate Risk Policy are within the prescribed limits.

In 2020, stress tests of the Bank's interest rate risk exposure were conducted on monthly basis, within the prescribed scenarios in accordance with the Interest Risk Management Methodology. The results of the performed stress tests indicate that the Bank has a low sensitivity to changes in market interest rates. The Bank's exposure to interest rate risk is at a stable moderate level.

Operational Risk Management

Operational risk management presupposes a system for recording, monitoring, controlling and dealing with potential and real harmful events arising from the Bank's current operations or external factors that have a negative effect on the financial result.

During 2020, the Bank revised its Operational Risk Management Policy according to which the Operational Risk Committee meets quarterly. Harmful events in the area of operational risks were actively monitored and recorded, and reports were prepared and presented to the Bank's authorities (Risk Management Committee and Operational Risk Commission).

The net loss from operating risks during 2020 was within the set tolerance limit and the Bank's Risk Appetite.

During 2020, the Bank conducted a sensitivity assessment of operational risks with high financial impact and low frequency through a scenario analysis method. The analysis covered the following operational risks: internal crime, card fraud, external crime, strike, core banking system failure, natural disaster (flood, fire, earthquake), digital space attacks and/or internal attacks using IT assets, and IT security risk. Based on the conducted sensitivity analysis of these risks, it has been concluded that no control mechanisms check, or introduction of additional measures are needed to reduce the operational risks that have a high impact on the Bank's solvency and profitability and low frequency.

Capital and Adequacy Management

According to the Banking Law, banks are obliged to maintain:

- Regular core capital rate (CET1 ratio) = CET1 capital/RWA = min. 4.5%;
- Core capital rate (T1 ratio) = T1 capital/RWA = min. 6%; and
- Total capital ratio = Total capital/RWA = min. 8%.

In addition, the NBRNM's Governor may prescribe higher rates than stated in the preceding paragraph, if necessary because of the nature, type and extent of the Bank's activities and the risks to which it is exposed as a result of those activities, including risks arising from macroeconomic environment, based on the implementation of the annual Supervisory Review and Evaluation Process (SREP-Pillar 2).

The supervisory rating of the minimum required level of capital is based on the assessment of the Bank's overall risk profile, which includes the assessment of the Bank's business model, the Bank's corporate governance, the Bank's liquidity position and the risks to the Bank's capital position (at least credit risk, operating risk, currency risk and the risk of interest rate changes in the banking book). At least once a year, the NBRNM assesses the minimum required level of capital for the Bank for the following year. The SREP of the Bank of 3% can be fulfilled with any quality of capital.

During 2020, the Bank was obliged to maintain **capital buffers**, as follows:

- Capital conservation buffer defined as 2.5% of risk weighted assets;
- Systemically important banks buffer as 1.5% of risk weighted assets. Systemically important banks buffer is designated once a year by the NBRNM until April 30 and can range from 1% to 3.5% of risk weighted assets;
- Countercyclical capital buffer of 0%;
- Systemic risk buffer is defined as a % of risk weighted assets estimated by the NBRNM for all banks, or for each bank, and may range from 1% to 3% of risk weighted assets. The systemic risk buffer is not currently applicable to the Bank (0%).

The total capital adequacy ratio that the Bank was to maintain for 2020 was 15.00% (2019: 15.00%).

Table 11: NLB Banka AD Skopje, minimum capital requirements (Tier1, Tier 2 and total amount of capital buffer)

2020		
Pillar 1	CET 1	4,50%
	Tier 1	6,00%
	Total capital	8,00%
Pillar 2	Total capital	3,00%
Total SREP Capital requirement (TSCR)	CET 1	7,50%
	Tier 1	9,00%
	Total capital	11,00%
Combined Buffer requirement (CBR)		
Conservation buffer	CET 1	2,50%
SII buffer	CET 1	1,50%
Countercyclical buffer	CET 1	0,00%
Systemic risk buffer	CET 1	0,00%
Overall capital requirement	CET 1	11,50%
	Tier 1	13,00%
	Total capital	15,00%

During 2020, the Bank's capital adequacy was maintained at a level of over 16.1%, and on 31 December 2020 it equalled 15.7% (2019: 16.4%). The Bank has complied with regulatory requirements for minimum statutory capital adequacy ratios, including the requirements for the maintenance of capital buffers, as well as capital buffer in accordance with the Supervisory Rating of the National Bank of the Republic of North Macedonia for the minimum required capital level (Table 11).

A significant increase in the Bank's own funds was realized in April 2020, as a result of retained undistributed earnings from 2019 (MKD 178 million).

The Bank's total risk weighted assets on 31 December 2020 amounted to MKD 74,643.1 million (2019: MKD 70,583.5 million) and is higher by MKD 4,059.6 million or 5.8% in comparison to last year as a result of an increase of credit risk weighted assets by MKD 3,434.6 million, increase of currency risk weighted assets by MKD 469.5 million, increase of operating risk weighted assets by MKD 147.9 million and increase of other risks weighted assets by MKD 7.6 million.

During 2020, in accordance with the NLB Group's requirements, the Bank amended its Capital Management and Capital Adequacy Policy, defining the minimum and target levels of capital and dividend policy.

Determination of internal capital ICAAP

According to the NLB Banka AD Skopje's Risk profile determination methodology, in Q3 2020 analysis of the Bank's risk profile was carried out. Based on macroeconomic expectations, developments in the banking sector, Risk Management Strategy, conducted risk identification according to volume, volatility and historical data in relation to losses, key risk indicators, set limits, performed stress tests and professional opinion of the members of the so-called Expert Group in the Bank, credit risk (including concentration risk, industry risk and foreign currency lending risk), currency risk, market risk arising from investments in equity securities, "credit spread" risk, interest rate risk and operating risk has a material significance on the Bank's risk profile.

According to the Methodology for determination of internal capital of NLB Banka AD Skopje, in the third quarter of 2020, a calculation of the capital required to cover the risks identified as materially significant for 2020 was made. According to the calculation in the economic approach, the total capital requirement for risk coverage amounts to MKD 7,102 million, while the internal capital adequacy indicator is 162.5% and is 46 p.p. above the internal level.

X. Human Resources Management

NLB Banka applies modern practices in human resource management, striving for continuous development of human potential, as one of the key segments of operations, by providing an exceptional working environment for employees, filled with challenges and numerous opportunities for growth.

In 2020, one of the main focuses in terms of employee care was to provide a high level of **protection against the Covid 19 virus**, following all government recommendations, providing working conditions in a state of emergency, continuing education to comply with measures to prevent the spread of the virus, as well as raising awareness of healthy habits and health care.

Despite the difficult working conditions, the Human Resource Management Center continued to run all processes smoothly. One of the main strategic initiatives is the implementation of the **Talent management strategy**, whereby in 2020 the process of revising the talent group is completed, by assessing the performance and potential of the employees.

Considering talent management, in 2020 the **job evaluation** was conducted through an in-depth analysis with the international tool "Gradar" in order to add value to the positions of senior specialists and experts, revise the underrated positions and standardize the salary ranks. It also influenced the adjustment of market conditions, maintaining the brand of an excellent employer in the financial sector and retaining key employees.

At the NLB Group level, in December 2020, a process of **measuring the organizational culture** of the Bank was conducted, with 250 employees involved in the measurement.

During the year, the Bank actively worked on the promotion of constructive styles of corporate culture by improving vertical and horizontal communication, setting common cross-divisional and team goals within organizational units, giving challenging tasks to employees, providing space for open communication of ideas, continuous encouragement of employees to think independently, provide support and resolve conflicts constructively, as well as investments in professional and personal growth of employees, during which 140 trainings were conducted, i.e. a total of 14,417 hours which means an average of 16.4 hours of training for each employee of the Bank.

As part of the education of employees in order to follow the world trends, a project for raising awareness of digital transformation called **"Digital Fitness Game"** was implemented, where employees upgraded their knowledge using a mobile application, and the most successful employees were appropriately rewarded.

Also, in order to increase the employee loyalty, a project **"NLB summer experience - we work with Nela"** was implemented for engagement of the children of the employees who are aged 15 to 22 years. This project provided students with career orientation and the opportunity to learn about the banking profession and banking processes.

Having in mind the impact of employee engagement on organizational behaviour and corporate culture, in 2020 a survey was conducted, i.e. **measuring employee engagement**.

In 2020, 46 new employments and 65 departures of employees from the Bank were realized, so the fluctuation rate of the total engaged employees increased slightly from 6.32% in 2019 to 6.88% in 2020.

The Bank as a company that continuously demonstrates an active awareness of the importance of human capital, respects the standards in human management and will continue to encourage employees to reach and apply their potential and to jointly build a vision for long-term well-being.

Table 12. Employees structure

	31.12.2019		31.12.2020		Change Y-o-Y	
	Number	Structure	Number	Structure		
Structure of employees						
by education degree	903	100,0%	877	100,0%	-26	-2,9%
PhDs	2	0,2%	2	0,2%	0	0,0%
Specialists and Masters	147	16,3%	148	16,9%	13	21,7%
Bachelors	650	72,0%	638	72,7%	-6	-0,9%
Undergraduates	12	1,3%	11	1,3%	-1	-8,3%
Highschool	92	10,2%	78	8,9%	-14	-15,2%
Primary	0	0,0%	0	0,0%	0	/
by age	903	100,0%	877	100,0%	-26	-2,9%
up to 25 years	13	1,4%	11	1,3%	-2	-15,4%
25 to 35	318	35,2%	290	33,1%	-28	-8,8%
35 to 45	441	48,8%	426	48,6%	-15	-3,4%
above 45	131	14,5%	150	17,1%	19	14,5%
by years of work within the Bank	903	100,0%	877	100,0%	-26	-2,9%
up to 1 year	50	5,5%	33	3,8%	-17	-34,0%
1 to 2	45	5,0%	59	6,7%	14	31,1%
2 to 5	154	17,1%	147	16,8%	-7	-4,5%
more than 5	654	72,4%	638	72,7%	-16	-2,4%
by gender	903	100,0%	877	100,0%	-26	-2,9%
male	326	36,1%	305	34,8%	-21	-6,4%
female	577	63,9%	572	65,2%	-5	-0,9%

XI. Internal Audit

During 2020, the Bank's audit activities were focused on achieving the key objectives: carrying out audits with a focus on the Strategy, business objectives and key risks to the Bank's operations, providing SMART audit recommendations, effective conduct of audit reviews and expert and professional development of internal auditors.

Within the audit reviews performed during 2020, a total of 75 recommendations were issued out of which: 7 of A priority, 45 of B priority and 23 of C priority.

Following separate processes, the recommendations mainly relate to the promotion of risk management and internal controls in the following areas:

- IT network and platforms;
- Micro lending;
- Cost management;
- Mobile banking;
- Exceptions to high exposure;
- External services (according to the recommendations of the European Central Bank);
- Determination of internal capital (ICAAP) for credit risk;
- Recovery plan;
- Cyber security (follow up);
- Customer data management;
- Custody (securities);
- Treasury operations;
- Rewarding;
- Credit intermediaries;
- Audits in the Bank's branch offices;
- Audits conducted on the recommendation of the Governor of the NBRNM.

For the open recommendations as of 31.12.2020, appropriate activities are undertaken for their implementation within the set deadlines.

XII. Marketing activities

Promotional campaigns for the Bank's product portfolio

During 2020 the marketing activities were carried out through greater representation of the Bank on Social Media, with a particular emphasis on digital marketing, presenting an expanded offer of banking services enriched with new, innovative products, focusing on loan products, as well as video tutorials and advice in this area in accordance with the situation with the Covid-19 virus pandemic.

Numerous measures for educating the clients were taken, in order to realize all banking services outside the branch offices, through the alternative channels of the Bank. Also, in order to support the sale of credit products, several loan campaigns were realized with a series of promotional benefits that resulted in almost complete realization of the set plans for 2020.

In accordance with the marketing plan, following the needs and preferences of the clients, numerous promotional campaigns were realized:

For legal entities

- Group's level campaign to support small businesses – NLB Help Frame project;
- Promotional campaign for MasterCard Business cards for legal entities;
- Promotional campaign for NLB Proklik e-banking and for NLB mProklik mobile banking for legal entities;
- Promotional campaign for Visa Business cards for legal entities.

For individuals

- NLB Consumer and Housing Loans;
- NLB Loans (Consumer, Housing and Mortgage);
- NLB mKlik loan - first and only credit directly via mobile phone;
- NLB HaPPy credit cards;
- Visa credit cards for individuals to support legal entities by spending at points of sale in the most affected industries by the pandemic crisis;
- NLB MasterCard credit cards for individuals with a donation campaign intended to help and support schools and children from socially disadvantaged families for the realization of online teaching;
- NLB Savings Month;
- NLB Insurance Month;
- NLB mKlik and NLB Klik-free for use in the period from March to May;
- NLB Pay mobile wallet in cooperation with Visa.

The bank successfully implemented the "Think Green" campaign in order to change the way of delivery of monthly invoices for credit cards from paper in electronic form.

In 2020, the Bank celebrated its 35th anniversary, and according to the situation with the pandemic of the Covid-19 virus, the celebration was "virtual" with an organized concert attended by our renowned artists: Vlatko Stefanovski, Karolina Gocheva, Tamara Todevska, "/Nokaut" and "Area". The concert was broadcast on 13.12.2020 at 19:30p.m. for the first time on Kanal 5 Television, as well as on the YouTube and Facebook profile of the Bank. For the celebration, an electronic invitation was sent to all the clients of the Bank to follow the concert. The YouTube concert has about 16.000 views, and the broadcast that went on Facebook was followed by over 37.000 Facebook users.

XIII. Corporate Social Responsibility

Taking care of the common good is one of the highest priorities in the Bank's value system and is an integral part of the strategy, where to the Bank paying particular attention to social responsibility and protection of the interests of all stakeholders. By supporting projects in the fields of culture, sport, science, education and protection of the environment, children and youth, the Bank seeks to contribute to the promotion and improvement of the overall quality of life of individuals, families, institutions and organizations in the wider environment in which operates.

Emphasis was placed on helping and supporting individuals and legal entities by conducting support campaigns by providing advertising space, encouraging card sales in the most affected industries, as well as helping the most vulnerable families to implement online education.

In 2020 the Bank's Corporate Social Responsibility, in accordance to the NLB Group's Corporate Social Responsibility Strategy, was implemented through a number of activities for the society and environment, clients and employees:

- 3 exhibitions of artists were organized by giving place to NLB Gallery;
- Sponsorship for the organization of the 11th futsal tournament "Toshe Proeski 2020" in the period from 24 to 26.01.2020;
- Sponsorship support for the Ecological Society Outdoor Manifesto - Krushevo for the two "outdoor" festivals "When in Krushevo" - winter and summer edition;
- Sponsorship for the 23rd edition of the music event Golden Ladybug of popularity;
- Supporting the largest regional conference on fast moving consumer goods FMCG (Fast moving consumer goods) summit 2020;
- Handball club Vardar, winner of the EHF Champions League 2016/17 and 2018/2019 was sponsored;
- Gostivar Basketball Club was sponsored;
- Sponsorship of the 2025 Summit organized by Macedonia 2025;
- Sponsorship for the Company for trade and services Rifenshtal DOO Skopje and their project Give us music;
- Sponsorship for the Golden Art KL7 Handball Club;
- Sponsorship for the Municipality of Centar-Skopje for providing personal computers for those students and teachers from the municipality who are not able to procure them
- Sponsorship for the Municipality of Krushevo for performance of infrastructural activities for rehabilitation of the bridge near the Krushevo Lake;
- Sponsorship for the Ski Club Polar for realization of sports activities, competitions and organization of schools in the competitive sports season 2020/2021;
- Sponsorship of three music concerts organized by Avalon of the following performers: Darko Rundek, Zheljko Bebek and Amira Medunjanin;
- Sponsorship of the New Year's online concert of the cult rock band Last Expedition.

During the year, donations in the total amount of MKD 26 million were paid to the following sports clubs and individuals: Basketball Club Gostivar, Handball Club Prolet 1962, Stavre Jada, Volleyball Federation of N.Macedonia, Chess Federation, Federation of School Sports, National Sports Federation of the Blind people, Swimming Club Neptun Skopje, Judo Club Ipon Skopje, Karate Club Olimpik, Dance Sports Federation, Women's Shooting Club Lihnidos, Taekwondo Club Butel, Bodybuilding and Fitness Federation, FC Makedonija Gjorche Petrov 1932, Women's volleyball club Rabotnichki.

In addition to sports donations, the Bank also donated funds to:

- Scout detachment Dimitar Vlahov, Veles for the organization of the "School for Leaders" which was held in the period from 20.02.2020 to 23.02.2020 in the scout center "Golozinci";
- Municipal Kindergarten "Femo Kulakov" from Negotino - donation of TV, in order to support in providing the necessary inventory for the kindergarten;

- 18th "Amateur Humanitarian Giant Slalom 2020" - The donation from this year's humanitarian activity was intended for the organization "PAWSITIVE IMPACT", a project to help homeless animals implemented by the Impact Foundation, non-profit organization AMOS Shelter and the Municipality of Mavrovo and Rostusha;
- Donation of 10 medical beds for semi-intensive care for the Public Health Institution - University Clinic for Infectious Diseases and Febrile Conditions in the amount of EUR 20.000;
- Donation to the Ministry of Health in the amount of MKD 1,845,000 to deal with the Covid-19 crisis;
- Traditionally donated New Year packages to the following non-governmental organizations that care for children with atypical development: NGO Prkos, Mobility Skopje, Sozvezdie, Coalition We change;
- Donation to support schools and children from socially disadvantaged families for the realization of online teaching;
- Donation for the Covid Center within the PHI City General Hospital 8th September;
- Donation of packages for children with disabilities.

XIV. Information Technology and Project Management

Information technology

The Information Technology Division in 2020, in addition to the activities and projects for providing working conditions in a pandemic conditioned by Covid-19, fulfilled other strategic goals aimed at developing and upgrading information systems in order to support banking operations, digitalization of banking services, automation and optimization of banking processes and harmonization within the NLB Group. All this was supported by continuous improvement of the IT infrastructure (network, system and server) and ensuring the security and safety of the systems.

The most important areas of work in 2020 were:

1. Ensuring effective continuity of the Bank's operations in extraordinary circumstances caused by Covid-19

- Enabling work from home through VPN access to over 450 employees through the implementation of remote access to work;
- Expansion of the Contact center' capacities and procurement and installation of additional computer equipment;
- Implementation of new software solutions and appropriate IT infrastructure to support government measures undertaken in relation to the pandemic and
- Continuous development of software solutions for the purpose of digitalization and optimization of banking processes.

2. Digital Bank transformation and integration with the NLB Group's initiatives

- Development of systems in order to improve the customers' digital experience and introduction of new digital channels;
- Active participation in group's initiatives for development of unified loan processes;

3. Ensuring a high level of IT and Cyber security

- Increase system performance and stability by migrating to new versions of operating systems and databases;
- IT and cyber security risks management by modernizing system security and proactive resource protection;
- Improving the system for Vulnerability and patch management and
- Increasing the defense against digital space attacks through the implementation of modern systems for monitoring and authorization and authentication.

4. Ensuring IT continuity through a stable Continuous Operation Plan

- Increase the performance and capacity of disk systems at the primary and secondary locations and its performance;
- Modernization of server, virtualization and network infrastructure and
- Stabilization of the core banking system by introducing solutions for its automation, optimization and online archiving.

5. Improving the provision of IT services in the field of data management

- Engaging outsourcing services for development of new projects for DWH/BI Tools;
- Optimization of the reporting model through its centralization and
- Implementation of Data Management strategy, through migration of report sets from core banking system to data warehouse (DWH), automation of new DWH report generation solutions, utilization of visual data presentation tools.

6. Changing the IT support concept

- Preparation of a new outsourcing concept for Layer 1 support for the basic banking system by introducing the Core Software Supplier concept.

Project Management

During 2020, NLB Banka AD Skopje worked on several projects, some of which refer to the initiatives of NLB d.d. in the direction of realization of the NLB Group's strategy, and part of certain changes of the Bank's initiative. They were all coordinated and monitored at the NLB Group level and by the Bank's management.

- **Project Measuring the Profitability of NLB Banka AD Skopje**

The main objective of the profitability measurement project is to provide transparency of the profit-generating dimensions (client, product, segment, product group, bank), sales channel management, productivity measurement and cost efficiency of the divisions for support of the business departments. During 2020, several interfaces were developed at the level of the NLB Group, through which, using an appropriate BI tool in the form of advanced reports, the so-called dashboards, dynamic graphs, etc., the extensive data used to make quality management decisions will be readily available and presented in an appropriate and usable manner.

Project activities are expected to be finalized by the end of the first half of 2021.

- **Project Experience (Phase II) - Customer Relationship Management (CRM) Software**

The implementation of the Phase II of the project Experience is an upgrade of the software application for customer relationship management, primarily intended for use by employees who have direct contact with customers, but also others who work to continuously improve the work and the relationship with the permanent and potential customers of the Bank. Some of the more significant enhancements to the application include: Customer onboarding, digital channel integration, qualification and integration of transaction operations with the CRM application, BI integration, Customer Analytics upgrade, predictive models, etc. The project activities are planned to be realized in a period of about 2 (two) years.

During 2020, the initiatives started last year were continued, which are monitored regularly on a monthly basis in accordance with the Project Management Methodology.

- **Group Project - LOPA Local Initiative (Loan Origination Process Advancing across NLB Group)**

The main objective of the initiative is to establish a unified loan process at the group level. During 2020, after the analysis of the offered solutions, a platform for implementation of a unified loan process was selected, with all the specifics for different credit products (fast loans, consumer loans, housing loans, business loans) within the NLB Group. The technical and functional specification for the application for quick consumer loans for individuals has been prepared, as the first stage of establishing the to-be model of a standard credit process and its full implementation through a workflow application.

- **Local Initiative - NPL management**

The main objectives of the initiative are to reduce the non-performing exposures in NLB Banka AD Skopje. The activities were completed by 31.03.2020.

- **Local Initiative - Effectiveness leader initiative**

This initiative refers to the improvement and optimization of the existing processes in the Bank. During 2020, significant activities for optimization of the processes were realized, resulting in a number of measures for their improvement and for achieving savings in the internal resources of the Bank.

The optimization of the existing processes takes place in accordance with a previously determined term plan, and such activities will continue to take place in the coming years.

xv. NLB Banka AD Skopje Corporate Governance Report

The Corporate Governance of the Bank, as a set of mutual relationships between the Management Board, the Supervisory Board, other persons with special rights and responsibilities performing the Bank's management function, the Bank's shareholders and other stakeholders in the Bank is based on the principles of responsibility, transparency and control in decision-making and day-to-day operations and reporting on the Bank's situation. The Bank's corporate governance is embodied in the Bank's bodies that play a key role in the efficient operation of the Bank.

During 2020, the Bank was governed by statutory established bodies with rights and obligations set forth in the Banking Law, Company Law and the Bank's Statute.

Shareholders assembly

During 2020 three sessions of the shareholders' assembly were held, of which one regular annual shareholders assembly and two extraordinary assemblies.

The following items were adopted at the Shareholders assembly held on 16.01.2020:

1. Election of the Chairman of the Assembly;
2. Election of a Record keeper and vote counter of the Assembly;
3. Proposal-decision on amending and supplementing the Statute of NLB Banka AD Skopje;
4. Proposal-decision on appointing an independent member of the Supervisory Board of NLB Banka AD Skopje;
5. Information on the results of the performed assessment of the suitability of Kristina Kovachich Bjelajac for a member of the Supervisory Board of NLB Banka AD Skopje;
6. Proposal-decision for adoption of the Remuneration Policy for the employees with special nature of the work in NLB Banka AD Skopje.

The Annual Shareholders Assembly was held on 23.04.2020 and the following items were proposed for adoption:

1. Election of the Chairman of the Assembly;
2. Election of a Record keeper and vote counter of the Assembly;
3. Annual report on 2019 NLB Banka AD Skopje' operation with:
 - Supervisory Board' opinion on the Annual report on 2019 NLB Banka AD Skopje' operation;
 - Proposal-decision on adoption of the Annual report on 2019 NLB Banka AD Skopje' operation;
4. Report of the Audit Company Ernst & Young Certified Auditors-DOO Skopje for performed audit of the financial statements of NLB Banka AD Skopje, prepared in accordance with the local regulations and in accordance with the International Financial Reporting Standards for 2019 with:
 - Control Report and Supervisory Board' opinion on Report of the Audit Company Ernst & Young Certified Auditors-DOO Skopje for performed audit of the financial statements of NLB Banka AD Skopje, prepared in accordance with the local regulations and in accordance with the International Financial Reporting Standards for 2019
 - Proposal-decision on adoption of the Report of the Audit Company Ernst & Young Certified Auditors-DOO Skopje for performed audit of the financial statements of NLB Banka AD Skopje, prepared in accordance with the local regulations and in accordance with the International Financial Reporting Standards for 2019;
5. Annual report on the 2019 Supervisory Board' operations with included results from individual and collective Evaluation of the work of the members of the Supervisory Board for 2019;
 - Proposal-decision on adoption of the Report on 2019 Supervisory Board' operations of NLB Banka AD Skopje;
6. Proposal-decision for approval of the work of the members of the Supervisory Board;
7. Annual report on the 2019 Management Board' operation with:
 - Proposal-decision on adoption of the Report on the 2019 Management Board' operation of NLB Banka AD Skopje;
8. Proposal-decision for approval of the work of the members of the Management Board;
9. Proposal-decision on adoption of 2019 Annual account of NLB Banka AD Skopje;

10. Proposal-decision for use and distribution of the profit on 2019 Annual account of NLB Banka AD Skopje;
11. Proposal-decision on dividend distribution and determination of 2019 Dividend calendar of NLB Banka AD Skopje;
12. Proposal-decision on appointing an Audit Company for performing 2020 Audit of the financial statements of NLB Banka AD Skopje;
13. Proposal-decision on appointing an independent member of the Supervisory Board of NLB Banka AD Skopje;
14. Information on the results of the performed assessment of the suitability of Zoran Jovanovski for a member of the Supervisory Board of NLB Banka AD Skopje.

At the Annual Shareholders Assembly, all proposed decisions were adopted, except for item 11 for which the dominant shareholder NLB d.d. Ljubljana voted against and submitted a new proposal-decision on the manner of use and distribution of the profit on 2019 Annual account of NLB Banka AD Skopje, which was adopted at the Shareholders Assembly by a majority vote of shareholders whose shares have the right to vote at the Assembly.

The third Shareholders Assembly was held on 30.11.2020 and the following items were proposed for adoption:

1. Election of the Chairman of the Assembly;
2. Election of a Record keeper and vote counter of the Assembly;
3. Proposal-decision for use of the accumulated profit of NLB Banka AD Skopje;
4. Proposal-decision for confirmation the amount of dividend and determination of 2019 Dividend calendar of NLB Banka AD Skopje;
5. Proposal-decision on amending and supplementing the Statute of NLB Banka AD Skopje;
6. Proposal-decision on amending and supplementing the Rules of Procedure of the Shareholders Assembly of NLB Banka AD Skopje;
7. Proposal-decision on adoption of the Consolidated text of the Rules of Procedure of the Shareholders Assembly of NLB Banka AD Skopje;
8. Information on the resignation of a member of the Supervisory Board of NLB Banka AD Skopje;
9. Proposal-decision on appointing a member of the Supervisory Board of NLB Banka AD Skopje.

At this Shareholders Assembly, all proposed decisions were adopted, except for the proposed items 3 and 4 for which the dominant shareholder NLB d.d. Ljubljana voted against at the session of the Assembly.

Supervisory and audit bodies and auxiliary bodies

Supervisory Board

The Bank's Supervisory Board supervises the operations of the Management Board, approves policies for performing financial activities and supervises their implementation. The Supervisory Board is responsible for ensuring the good operation, management, and stability of the Bank, as well as timely and accurate financial reporting to the National Bank of the Republic of North Macedonia.

In 2020, the Supervisory Board held 13 sessions, seven of which were videoconferences, and six were held in correspondence manner. The Supervisory Board was making decisions at all its sessions in accordance with the Statute and Rules of Procedure by a majority of votes. The work of the Supervisory Board was continuously attended by all members and they contributed to the successful completion of the work of the Supervisory Board, except for the members who were justifiably absent at some sessions.

The Supervisory Board of the Bank performs the following activities:

- Adopts the Bank's Business Policy and the Bank's Development Plan;
- Appoints and dismisses members of the Management Board of the Bank;
- Appoints and dismisses members of the Risk Management Committee;

- Appoints and dismisses members of the Audit Committee;
- Appoints and dismisses members of the Information System Steering Committee;
- Appoints and dismisses members of the Credit Committee;
- Adopts the Bank's financial plan;
- Organizes the Internal Audit Division;
- Approves the annual plan of the Internal Audit Division;
- Adopts information system security policy;
- Adopts the Bank's risk management policies;
- Adopts a policy of conflict of interest identifying possible conflicts of interest and measures and activities to prevent them;
- Adopts a remuneration policy in accordance with the business policy, development plan, financial plan, and policy for avoiding conflict of interest with the Bank;
- Adopts and implements the policy on the manner of selection, monitoring of the work and dismissal of the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Management Board;
- Reviews the reports on the operation of the Management Board of the Bank;
- Reviews the reports of the Risk Management Committee;
- Reviews the reports of the Audit Committee;
- Reviews the reports of the Internal Audit Division;
- Reviews the reports of the Compliance and Information Security Department;
- Approves the Bank's annual account and financial statements;
- Approves exposure to an individual of over 20% of the Bank's own funds, except for exposure based on the purchase of securities issued by the National Bank and the Republic of North Macedonia;
- Approves transactions of related parties with the Bank in the amount of over 6 million MKD;
- Approves the acquisition of equity holdings and purchase of securities greater than 5% of the Bank's own funds, except for the purchase of securities issued by the National Bank and the Republic of North Macedonia;
- Approves the Audit Committee's proposal for appointment of an audit company, or the proposal for terminating the contract with the audit company, and is responsible for providing appropriate audit;
- Adopts an internal audit policy;
- Reviews the supervision reports, as well as other reports submitted by the National Bank, the Public Revenue Office and other competent institutions and proposes or takes measures and activities for overcoming the identified noncompliances and weaknesses in the Bank's operations;
- Approves the annual report on the Bank's operations and submits a written opinion thereon to the Bank's Assembly;
- Reviews the report of the audit company and submits a written opinion thereon to the Shareholders Assembly;
- Adopts the Corporate Governance Code which regulates the Bank's management and supervision rules;
- Adopts the Bank's Code of Ethics;
- Adopts an act for organization and systematization of the Bank's job positions;
- Decides on the establishment of organizational units, upon the proposal of the Management Board;
- Concludes management agreements with the Management Board of the Bank;
- Decides on definitive write-off of claims, based on the reports prepared by the Bank's expert divisions;
- Decides on the establishment and abolition of business-organizational units of the Bank abroad;
- Adopts Rules of Procedure for its work;
- Forms boards, working and advisory bodies and committees to perform tasks within its scope and determines their competence;
- Decides on the Bank's participation in the formation of the Banking Consortium;
- Decides in the second instance on complaints and requests for protection of workers' rights;
- Approves loans and other forms of exposure of the Bank towards a subsidiary of the Bank, towards a shareholder with qualified holding in the Bank and related persons and to a

person with special rights and responsibilities and persons related to him in the amount of over 6 million MKD;

- Performs other duties which are not within the competence of the Assembly.

For most of 2020, the Bank's Supervisory Board was composed of six members.

During 2020, due to the expiration of the mandate of the independent members Abdulmenaf Bedjeti and Borislav Atanasovski, the Bank started the process of appointing new independent members of the Supervisory Board.

Namely, on 30.03.2020, a decision was reached by the NBRNM for the issuance of a prior consent for the appointment of Zoran Jovanovski as a member of the Supervisory Board, and thus as a member of the Audit Committee of NLB Banka AD Skopje in the place of the independent member Abdulmenaf Bedjeti.

On 20.10.2020, a decision was reached by the NBRNM for the issuance of a prior consent for the appointment of Mateja Treven as a member of the Supervisory Board, in the place of the independent member Borislav Atanasovski.

At the same time, the member of the Supervisory Board Hedvika Usenik submitted a resignation on 23.10.2020 to the Shareholders Assembly of NLB Banka AD Skopje as a member of the Supervisory Board and a member of the Audit Committee of the Bank. The submitted resignation states that Hedvika Usenik will continue to perform the function of a member of the Supervisory Board until obtaining the consent of the Governor of the NBRSM, for the member of the Supervisory Board who will be appointed as her replacement at the Shareholders Assembly. The statutory minimum of members of the Supervisory Board under the Banking Law is five members.

To supplement the composition of members of the NLB Banka AD Skopje Supervisory Board, NLB d.d. Ljubljana submitted a proposal for the appointment of Borut Vujchich as a new member of the Supervisory Board and the Audit Committee of NLB Banka AD Skopje for the remainder of Hedvika Usenik's term of office until 11.09.2021.

On 05.01.2021 a request for appointment of Borut Vujchich as a member of the Supervisory Board of NLB Banka AD Skopje was submitted to the NBRNM.

▪ Term of office

The members of the Bank's Supervisory Board are elected by the Assembly, with a majority vote of the voting shares of the quorum determined for the work of the Assembly.

The term of office of the members of the Supervisory Board is four years, whereas each year the Annual Assembly decides on the approval of the work of each member separately, after which new members are elected in place of those whose work is not approved.

▪ Independence

At least one quarter of the Supervisory Board members must be independent members. In this regard, two of the members of the Supervisory Board of NLB Banka are independent members. The independence of the two members of the Supervisory Board of the Bank is determined in accordance with the independence criteria set forth in the Banking Law. The Bank continuously observes the fulfilment of these criteria throughout the year.

The data on the members, the memberships in the Bank's bodies as well as their memberships in other management or supervision bodies are presented in Table 13.

▪ Compensation and remuneration

According to the NLB Group Management and Supervision Policy, the members of the Supervisory Board employed by NLB Group are not entitled to any remuneration for participating in the work of the Supervisory Board, nor to participating in the remuneration from the Bank's profit. According to the Decision for determining the remuneration of the members of the Bank's bodies, adopted by the Bank's Shareholders Assembly on July 23, 2013, the members of the Supervisory Board who are not employees of NLB Group are entitled to a compensation for attending a session of EUR 500 in Denar counter value for President of the Supervisory Board and 400 EUR in Denar counter value for a member of the Supervisory Board. The compensation for attending a correspondent session is 50% of the compensation for attending each regular session.

According to the decision, independent members of the Supervisory Board based on session attendance were paid a gross amount of MKD 27,396 for Abdulmenaf Bedjeti, MKD 109,680 for Zoran Jovanovski and a gross amount of MKD 137,076 for Borislav Atanasovski.

Pursuant to the Company Law, the Bank is obliged to publish in the annual report also the remuneration that members of the supervisory and management bodies achieve from membership in management bodies in other companies, or if they have established employment relations with other employers.

Due to the confidentiality of the data of four members - non-residents of the Supervisory Board (Blazh Brodnjak – President, Marjeta Zver Cankar - Vice President, Hedvika Usenik and Kristina Kovachich Bjelajac) all of them employees at the employer NLB d.d. Ljubljana, earnings for 2020 are expressed in aggregate gross amount as follows: gross salary of EUR 639,933 and variable part of salary in gross amount of EUR 8,474. The other two members are independent members and residents of the Republic of North Macedonia, who during 2020 earned the following income:

1. Zoran Jovanovski – resident, gross salary in the amount of MKD 1.5 million and a variable part of salary of MKD 17,220;
2. Mateja Treven – nonresident, gross salary in the amount of EUR 17,245 and variable part of salary in gross amount of EUR 11,130.

Table 13. Members of the Supervisory Board and their membership in other committees

			Membership of the Bank's bodies				Membership in other supervisory or management bodies		
Name	Professional engagement	Education	Supervisory Board	Audit Committee	Remuneration Committee	Nomination Committee	Supervisory or management authority	Name and address of the legal entity	Period
Blazh Brodnjak	President of the Management of NLB d.d.	MBA	President, 28.07.2016 - current	-	President	Member	President of the Supervisory Board	NLB Banka Sarajevo d.d. Federacija Bosna i Hercegovina	current
							President of the Supervisory Board	NLB Banka Banja Luka a.d. Republika Srpska	current
							Member of the Supervisory Board	NLB Vita d.d.	until 02.06.2020
							President of the Supervisory Board	Bank Association of Slovenia	01.11.2019 - current
							Member of the Board of Directors	Komercijalna banka a.d. Beograd	30.12.2020 - current
Marjeta Zver Cankar	Deputy General Manager of the Corporate Governance Department in NLB d.d.	Master of Science in World Economy	Member, 31.03.2011 - current	Member	Member	President	-	-	-
Mateja Treven	Founder-CEO of Blockhapp DOO Ljubljana	Master of Science in Investment Management	Member, 20.10.2020 - current	-	-	-	Outside member of the Audit Committee of the Supervisory Board	Port of Luka Koper d.d. Koper, Slovenia	current
Hedvika Usenik	Assistant to the Management Board for Retail, NLB d.d.	Master of Science, Degree in Business Administration, Major in Finance	Member, 01.04.2019 - Resignation on 23.10.2020 (will take effect after obtaining consent from the NBRNM to appoint a new member)	President since 31.07.2019 - Resignation on 23.10.2020 (will take effect after obtaining consent from the NBRNM to appoint a new member)	-	-	Member of the Board of directors	NLB AD Prishtina	05.02.2019 - current
Kristina Kovachich Bjelajac	Deputy General Manager of Global Risk Division in NLB d.d.	Business Administration (MScBA), Banking and Finance	Member, 30.07.2019 - current	Member, 30.07.2019 - current	Member, 06.11.2020 - current	Member, 06.11.2020 - current	-	-	-
Zoran Jovanovski	Chief Advisor to the Management Board of the Economic Chamber of Macedonia for Economic Affairs	Master of Arts, Business Economics	Member, 30.03.2020 - current	Member, 30.03.2020 - current	Member, 30.03.2020 - current	Member, 30.03.2020 - current	-	-	-
Abdulmenaf Bedjeti	Regular professor and member of the committee of the South East European University, Tetovo	PhD in Economics	Member, 30.06.2008 - 22.02.2020	Member, until 22.02.2020	Member, until 22.02.2020	Member, until 22.02.2020	Member of the Supervisory Board and member of the Audit Committee	NLB AD Prishtina	2016 - current
							Member of the Board of directors. Since 2012 Manager of the Ekolog's holding - ND Balkan, Tetovo	Ekolog Tetovo	2007- current
							Regular member	MANU Skopje	2012- current
Borislav Atanasovski	Manager of Audit, assessment and financial consulting B i Lj Boro i Ljupcho, DOO Skopje	BSc of Economics and Certified Auditor	Member, 30.06.2008 - 27.05.2020	-	Member, until 27.05.2020	Member, until 27.05.2020	-	-	-
Stojan Jordanov	Manager of the Audit company RSM Macedonia	BSc of Economics and Certified Auditor	-	Member, current	-	-	-	-	-

Remuneration Committee

It was established based on the NBRNM Decision on Good Corporate Governance rules for banks and functions as an advisory body to the Supervisory Board. During 2020, it operated with four members.

Due to the expiration of the mandate of the independent members of the Supervisory Board Abdulmenaf Bedjeti and Borislav Atanasovski who were also members of the Remuneration Committee, the composition of the Remuneration Committee in 2020 was supplemented by the election of new members - Zoran Jovanovski and Kristina Kovachich Bjelajac.

Committee members meet at sessions whenever there is a need for a Remuneration Committee. During 2020, six sessions of the Board were held, one of which was held in correspondence manner, and five by videoconference.

- Term of office

The term of office of the members of the Nomination Committee shall run from the time of their appointment to the moment of their removal by appropriate decision or their resignation.

- Compensation and remuneration

The members of the Appointing Committee are not entitled to a compensation for session attendance.

The composition of the committee is shown in Table 13.

Nomination Committee

It was established based on the NBRNM Decision on Good Corporate Governance rules for banks and functions as an advisory body to the Supervisory Board. During 2020 it functioned with four members.

Due to the expiration of the mandate of the independent members of the Supervisory Board Abdulmenaf Bedjeti and Borislav Atanasovski who were also members of the Nomination Committee, the composition of the Nomination Committee in 2020 was supplemented by the election of new members - Zoran Jovanovski and Kristina Kovachich Bjelajac.

Committee members meet at sessions whenever there is a need to hold a Nomination Committee. During the reporting period, seven sessions of the Nomination Committee were held, four of which were videoconferences and one was held in correspondence manner.

During 2020 the following proposals were submitted to the Nomination Committee:

- Approval of a positive annual assessment of the suitability of the members of the Supervisory Board of NLB Banka AD Skopje for 2019,
- Termination of the mandate of Abdulmenaf Bedjeti,
- Appointment of a member and determination of a new composition of members of the Risk Management Committee,
- Re-appointment (re-election) of Ljiljana Nastoska - Manager of the Internal Audit Division,
- Appointment of Borut Vujchich as a member of the Supervisory Board and the Audit Committee of the Bank,
- Appointment of Anita Boskova as a Manager of the Internal Audit Division,
- Appointment of Mateja Treven as an independent member of the Supervisory Board of NLB Banka AD Skopje.

For the above-mentioned appointments, positive (individual and collective) assessments of suitability for the members of the Bank's management and supervisory bodies were carried out, and prior consents for their appointment were issued by NBRNM decisions.

The composition of the Committee is shown in Table 13.

- Term of office

The term of office of the members of the Nomination Committee shall run from the time of their appointment to the moment of their removal by appropriate decision or their resignation.

- Compensation and remuneration

The members of the Appointing Committee are not entitled to a compensation for session attendance.

Audit Committee

During 2020, the Audit Committee held six sessions. Five were videoconference sessions, and one of the sessions was held in correspondence manner.

The Bank's Audit Committee performs the following works:

- Reviews the financial statements of the Bank and ensures the accuracy and transparency of the disclosed financial information about the Bank's operations in accordance with accounting standards;
- Reviews and evaluates internal control systems;
- Monitors the work and evaluates the effectiveness of the internal audit department;
- Monitors the audit process of the Bank and evaluates the work of the audit company;
- Adopts the Bank's accounting policies;
- Monitors the compliance of the Bank's operations with the regulations regarding accounting standards and financial statements;
- Holds meetings with the Management Board, the Internal Audit Division and the audit company regarding identified noncompliance with the Bank's regulations and weaknesses;
- Reviews the reports of the Risk Management Committee and
- Proposes the appointment of the audit company and termination of the contract concluded with the audit company.

In 2020, the Audit Committee was composed of five members (shown in Table 13).

During 2020, due to the expiration of the mandate of the independent member of the Supervisory Board Abdulmenaf Bedjeti, who was also a member of the Audit Committee, the Bank started the process of appointing a new independent member of the Supervisory Board, who will also be a member of the Audit Committee.

Namely, on 30.03.2020, a decision was received from the NBRSM with which a prior consent was issued for Zoran Jovanovski to be appointed a member of the Supervisory Board, and at the same time the decision adopted by the Supervisory Board on 12.12.2019 came into force for appointing Zoran Jovanovski for a member of the Audit Committee of NLB Banka AD Skopje.

At the same time, the member of the Supervisory Board and President of the Audit Committee Hedvika Usenik submitted a resignation on 23.10.2020 to the Shareholders Assembly of NLB Banka AD Skopje as a member of the Supervisory Board and a member of the Audit Committee of the Bank. The submitted resignation states that Hedvika Usenik will continue to perform the function of a member of the Supervisory Board and Audit Committee until obtaining the consent of the Governor of the NBRSM, for the member of the Supervisory Board who will be appointed as her replacement at the Shareholders Assembly.

On 05.01.2021, a request was submitted to the NBRSM for appointment of Borut Vujchich as a member of the Supervisory Board of NLB Banka AD Skopje. After obtaining the consent of the NBRSM, the decision adopted by the Supervisory Board on 06.11.2020 appointing Borut Vujchich as a member of the Audit Committee of NLB Banka AD Skopje will enter into force.

▪ Term of office

The term of office of the members of the Audit Committee shall be four years.

▪ Independence

According to the Banking Law, the majority of the members of the Bank's Audit Committee are elected from among the members of the Supervisory Board, and the remaining members are independent members. At least one member of the Audit Committee should be a certified auditor. To that end, four members of the Audit Committee are members of the Supervisory Board, and one member is an authorized auditor (Stojan Jordanov).

▪ Compensation and remuneration

According to the NLB Group Management and Supervision Policy, the members of the Audit Committee employed in NLB Group are not entitled to any remuneration for participating in the work of the Audit Committee, nor to participating in the remuneration from the Bank's profit. According to the Decision for determining the remuneration of the members of the bodies of NLB Banka AD Skopje, adopted by the Bank's Shareholders Assembly on July 23, 2013, the members of the Audit Committee who are not employed in NLB Group are entitled to a net compensation of EUR 375 in Denar equivalent to the President of the Audit Committee and 300 EUR in Denar equivalent to a member of

the Audit Committee for session attendance. The compensation for attending a correspondent session is 50% of the compensation for attending each regular session. The amount paid to the members according to the adopted decision is shown in Table 16.

Executive and auxiliary bodies

Management Board of the Bank

Table 14. Members of the Management Board and their membership in other committees

Name	Position	Education	Membership of the Bank's bodies					
			Risk Management Committee	Assets and Liabilities Management Committee	Development Committee	IT Steering Committee	Credit Committee	Operational Risk Commission
Antonio Argir*	President of the Management Board	MBA	President	Member	President	President	Vice-president	Member
Peter Zelen	Member of the Management Board	Bachelor of Economics and Mechanical Engineering	Member	Member	Member	Member	President	President
Günter Friedl	Member of the Management Board	MBA, Master of Advanced Studies in Finance (MAS), Master of Social and Economic Sciences (Mag.)	Member	President	Member	Member	-	Member
Igor Davchevski	Member of the Management Board	MBA	Member	Member	Member	Member	-	Member

* Membership of the Management Board in other management/supervisory bodies: Antonio Argir is Vice President of the Economic Chamber of Macedonia

The Bank's Management Board represents the Bank and manages its operations in accordance with the Banking Law, the Statute of NLB Banka AD Skopje and the Bank's Corporate Governance Code. The members of the Bank's Management Board are appointed and dismissed by the Bank's Supervisory Board with majority votes, upon prior consent by the Governor of the NBRNM. In 2020, the Management Board was composed of four members.

On 21.11.2019, NBRNM issued a decision for issuance prior consent for the appointment of Igor Davchevski as a member of the Management Board of NLB Banka AD Skopje. The consent for the appointment of Igor Davchevski is issued for a period of two years, with effect from 01.01.2020. On 25.12.2019, the NBRNM issued a decision for issuance prior consent for the appointment of Peter Zelen as a member of the Management Board of NLB Banka AD Skopje replacing Damir Kuder, whose term of office expired on 01.01.2020. The consent for the appointment of Peter Zelen is for a period of two years, with effect from 02.01.2020.

The Management Board during the reporting period worked at sessions, which were usually held once a week. In addition to the regular sessions, the Management Board also decided daily, out of the sessions, with the written consent of all members of the Board.

In 2020, the Management Board held approximately 80 regular sessions, some of which were correspondent.

In managing the Bank's operations, the Management Board performs the following tasks:

- Manages the Bank;
- Represents the Bank;
- Organizes the preparation of the drafts of general acts, decisions and other acts for which the Bank Assembly decides;
- Executes the decisions of the Assembly and the Supervisory Board of the Bank, i.e. takes care of their implementation;
- Initiates and makes suggestions for improvement of the Bank's operations;
- Appoints and dismisses the Bank's persons with special rights and responsibilities, in accordance with the Bank's Statute and the provisions of the Banking Law, determines their salary and concludes contracts with them;
- Prepares business policy and development plan of the Bank;
- Prepares financial plan of the Bank;
- Prepares policy for the Bank's information system security;
- Prepares annual report on the Bank's operations and submits it to the Supervisory Board;
- Prepares a Code of Ethics of the Bank;
- Approves exposure to an individual up to 10% of the Bank's own funds;
- Approves transactions with related parties with the Bank in the amount of less than MKD 6.000.000;

- Approves the acquisition of equity holdings and purchase of securities of less than 5% of the Bank's own funds, as well as the purchase of securities issued by the National Bank and the Republic of North Macedonia;
- Decides on employment, on the designating and remuneration of employees in accordance with the legal regulations and general acts of the Bank;
- Decides on granting and taking of loans for liquidity, guarantees, avals and letters of credit within the limits set by law, the Bank's business policy act and the credit policy decision of the Supervisory Board;
- Establishes proposals for decisions and other acts decided upon by the Supervisory Board of the Bank;
- Takes care of informing the Bank's shareholders;
- Directs and organizes the work of the Bank's units, especially in terms of timely and professional performance of the work;
- Adopts the Rules of Procedure of the Management Board and its amendments with the prior approval of the Supervisory Board of the Bank;
- Adopts individual acts of the Bank;
- Establishes a commission for inventory of fixed assets, small inventory, non-current and foreclosed assets, and if necessary, establishes other commissions and working bodies and appoints their members;
- Reviews and adopts the report on annual inventories;
- Performs other activities determined by Law, Statute and other general acts of the Bank.

The Bank's Management Board is responsible for:

- Providing conditions for the Bank's operations in accordance with the regulations;
- Management and monitoring of the risks to which the Bank is exposed;
- Achieving and maintaining an adequate level of own funds;
- Functioning of the system of internal control in all areas of the Bank's operations;
- Continuous operation of the Bank's Internal Audit Division, i.e. ensuring that the Internal Audit Division has access to the documentation and the staff of the Bank for the purpose of smooth performance of its activities;
- Smooth operation of the Compliance and Information Security Department, i.e. ensuring that the Department has access to the documentation and the staff of the Bank for the purpose of smooth implementation of its authorizations;
- Adopting and enforcing the policy on the manner of selection, monitoring of the work, and dismissal of persons with special rights and responsibilities, except for members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Management Board;
- Keeping business and other books and business documentation of the Bank, preparing financial and other reports in accordance with the accounting regulations and the accounting standards;
- Timely and accurate financial reporting;
- Regularity and accuracy of the reports submitted to the National Bank in accordance with the law and the regulations adopted based on a law;
- Implementation of the measures imposed by the Governor towards the Bank and the legality of the Bank's operations.

For regular information on the Bank's operations, an agenda, minutes from the previous session, as well as materials from the Bank's Organizational Units are prepared for each Management Board's session.

In addition to the above, the members of the Management Board of the Bank also attend the sessions of the Supervisory Board and the Audit Committee.

At its regular sessions, within its competences, the Management Board undertakes a number of activities and adopts a number of Rulebooks, Guidelines, Procedures, Plans and Decisions.

Besides that, the Management Board reviews on a monthly basis the reports of the Compliance and Information Security Department, including: Segment for Ensuring Operational Legislation, Segment on Money Laundering and Terrorist Financing Prevention, and the Information Security segment.

The Management Board reported at least quarterly to the Supervisory Board on its operations through Information on the Current Activities.

- Term of office

The term of office of the members of the Management Board shall be four years, unless the NBRSM decides otherwise with the Decision for issuing a prior consent for appointment of a member of the Management Board.

- Compensation and remuneration

Board members are not entitled to a compensation for session attendance.

During 2020, the members of the Management Board earned the following income:

1. Antonio Argir, President of the Management Board, on the basis of gross salary in the amount of MKD 8.4 million, insurance in the amount of MKD 57,397 and other rights in the amount of MKD 0.5 million;
2. Peter Zelen, Member of the Management Board, on the basis of gross salary of MKD 7.4 million, insurance of MKD 57,397 and other rights amounting to MKD 2.3 million;
3. Günter Friedl, Member of the Management Board, on the basis of gross salary in the amount of MKD 7.5 million and other rights in the amount of MKD 4.3 million;
4. Igor Davchevski, Member of the Management Board, on the basis of gross salary in the amount of MKD 6.6 million, insurance in the amount of MKD 57,397 million and other rights in the amount of MKD 0.4 million.

The earnings of the members of the Management Board for 2020 are also shown as a group in Table 16 and Table 16a.

Risk Management Committee

During 2020, the Risk Management Committee was composed of nine members (Tables 14 and 15). The members of the Risk Management Committee shall be selected from among the persons with special rights and responsibilities employed in the Bank. One of the members of the Bank's Management Board shall also a member of the Risk Management Committee. To that end, the President of the Risk Management Committee is the President of the Management Board, Antonio Argir, and the other members of the Management Board are members of the Risk Management Committee.

During the reporting period, the Risk Management Committee held 53 sessions.

The Risk Management Committee meets regularly, once a week to fulfil the following responsibilities:

- Permanently monitors and evaluates the Bank's risk level and determines the acceptable level of risk exposure in order to minimize the Bank's exposure to risk;
- Establishes risk management policies and monitors their implementation;
- Follows the NBRNM's regulations regarding risk management and the Bank's compliance with these regulations;
- Assesses the Bank's risk management systems;
- Identifies short-term and long-term strategies for managing certain types of risks to which the Bank is exposed;
- Analyses risk exposure reports of the Bank prepared by the Bank's risk assessment divisions and propose strategies, measures and instruments for risk protection;
- Monitors the efficiency of the functioning of the internal control systems of risk management;
- Analyses the effects of risk management on the Bank's performance;
- Analyses the effects of the proposed risk management strategies, as well as the proposed strategies, measures and instruments for risk protection;
- Assesses the compliance of the prices of the products and services offered by the Bank with the level of risk taken, in accordance with the business policy and the development plan of the Bank;
- Reports quarterly to the Supervisory Board on changes in the Bank's risk positions, changes in its risk management strategy, the effects of risk management on the Bank's performance, as well as measures and instruments taken to protect against risks and their effects;
- Approves exposure towards an individual of over 10% to 20% of the Bank's own funds;
- Monitors the information system security policy and identify cases where it is necessary to revise it;

- Assess the established process of information system security management;
- Performs an analysis of the risk assessment report and monitors activities undertaken in relation to information system security management;
- Determines and regularly reviews the defined levels of risk acceptability;
- Mandatory assesses whether the remuneration system considers the Bank's risk profile and its solvency, liquidity and profitability position.

The Risk Management Committee reported at least quarterly to the Supervisory Board and the Audit Committee on changes in the Bank's risk positions, changes in its risk management strategy, the effects of risk management on the Bank's performance, as well as measures and risk protection instruments and their effects.

- **Term of office**

The term of office of the Members of the Risk Management Committee shall last from the moment of their appointment until the moment of their removal by appropriate decision or their resignation.

- **Compensation and remuneration**

The members of the Risk Management Committee are not entitled to a compensation for session attendance.

Credit Committee

The Credit Committee consists of seven members and their deputies. The Decision on Appointment of President of the Credit Committee appoints the member of the Management Board responsible for risk monitoring, in his absence as the first Vice-President of the Credit Committee, the President of the Bank's Management Board is appointed, and the second Vice-President is appointed as the Manager of the Risk Management Division. The Credit Committee decides at regular meetings held at least once a week.

During the reporting period, the Credit Committee held a total of 163 sessions (137 regular and 26 correspondent sessions).

The Credit Committee does the following activities:

- Approves credit exposures upon credit claims over limits set forth in the authorizations issued to persons with special rights and responsibilities and other employees of the Bank;
- Decides on buying and selling of securities other than securities issued by NBRNM and government securities, within the limits set by the Bank's acts;
- Decides on borrowing the Bank within the limits set by the Bank's acts;
- Approves credit exposures upon credit claims that are subject to exceptions (interest rates, commissions, collateral, amount and term etc.) outside the criteria set forth in the Bank's internal acts and regulations;
- Approves decisions on the operation of the Nonperforming loans and Intensive Care Division for which the Division has no special powers;
- Decides to place the companies on the WATCH list and on the ICL (Intensive Care List) and on materials related to the clients placed on the ICL list;
- Approves credit exposures upon credit requests of clients (and their fully related entities) on the WATCH list and on the ICL list;
- Approves the possibility of early termination of the deposit, before the expiration of the agreed term with payment of the contractual interest;
- Exceptions of Interest Rate Policy and Bank Tariff;
- Other matters determined by the regulations and internal acts of the Bank.

- **Term of office**

The term of office of the members of the Credit Committee and their deputies shall last from the moment of their appointment until the moment of their dismissal by appropriate decision or their cancellation.

- **Compensation and remuneration**

The members of the Credit Committee are not entitled to a fee for session attendance.

Table 15. Management Team of the Bank and their membership in other bodies

Name	Position	Education	Membership of the Bank's bodies							
			Risk Management Committee	Assets and Liabilities Management Committee	Development Committee	IT Steering Committee	Credit Committee	Operational Risk Commission	Legal Risk Commission	Committee for Identification of Employees Performing Special Work
Biljana Stepanuleska Pochevska	Manager of Corporate Clients Division	MSc in Economy	Member	Member	-	Member	Member	Member	-	-
Boban Popevski	Analysis and Administration Division	BSc in Customs and freight forwarding management, International economics	-	-	-	-	Member	Member	-	-
Bogoja Kitanchev	Manager of Risk Management Division	MBA	Member	-	-	Member	Member	Deputy-president	Member	Member
Violeta Janeva	Manager of Legal and Secretariat Division	MSc in Finances and Finance Law	Member	-	-	Member	-	Member	President	-
Donka Markovska	Manager of Financial Management Division	MBA	-	Member	Member	Member	-	Member	Member	Member
Zoran Gmcharovski	Manager of Non-performing Loans and Intensive Care Division	BSc of Economics	Member	-	-	Member	Member	Member	-	-
Ivana Dojchinovska	Manager of Human Resources Management Center (until 31.08.2020)	Master of Human Resources Management	-	-	-	-	-	Member (until 31.08.2020)	-	President (until 31.08.2020)
Igor Mitrovski*	Manager of Information Technology Division	BSc of Electrical Engineering	-	-	-	Member	-	Member	-	-
Aleksandar Atanasovski	Assistant Manager of Payment System Division	MBA	-	-	-	Member	-	Member	-	-
Igor Kacarski	Manager of Bank's Logistics Division	MBA	-	-	-	-	-	Member	-	-
Irena Bachanovikj Karakashev	Head of Compliance and Information Security Department	MBA	-	-	-	Member	-	Member	-	-
Irena Kosikj	Head of department for market and liquidity risks, Risk Management Division in NLB d.d. Ljubljana	BSc of Economics	-	Member	-	-	-	-	-	-
Ljubica Janchevska Dimitrovska**	Manager of Financial Market and Treasury Division	BSc of Economics	Member	Member	-	Member	-	Member	-	-
Lijana Nastoska	Manager of Internal Audit Division	BSc of Economics	-	-	-	-	-	-	-	-
Ljupka Gjorgijevska	Manager of Offer Development and Marketing Division	BSc of Economics	-	Member	-	-	-	Member	-	-
Maja Stavreva Stojanova	Manager of Sales Network Division	BSc of Economics	Member	Member	-	Member	Member	Member	-	-
Marija Zafirovska***	Manager of Cash Services and Depot Division	MBA	-	-	-	Member	-	Member	-	-
Slagjana Beleva	Manager of Sales Logistics Division	MSc in Economy	-	-	-	Member	-	Member	-	-

* until 25.04.2020, Manager of Information Technology Division was Aleksandar Misovski

** until 26.01.2020, Manager of Financial Markets and Treasury Division was Jasmina Mojsievska

*** Marija Zafirovska is on the position Manager of Cash Services and Depot Division since 07.09.2020

IT Steering Committee

It has been established on the basis of the regulations of the NBRNM, the Basel Principles and the international standards for information system security.

The IT Steering Committee has responsibilities delegated by the Bank's Supervisory Board in the domain of the information system and its reliability. Accounts for its work before the Bank's Supervisory Board and assists in decision-making for approval of IT strategies, policies and expenditures and provides conditions for effective IT planning and monitoring of the IT system capacity and performance, as well as all information security issues.

At least twice a year, it reports to the Bank's Supervisory Board on the status of the Bank's information technology, the open questions and decisions and conclusions.

The IT Steering Committee works and makes valid decisions at sessions convened at least once every 3 months. Sessions are convened as needed in shorter deadlines as well.

The members and the President of the IT Steering Committee are appointed by the Supervisory Board of the Bank (Table 15).

Term of office

The term of office of the members of the Information System Supervision Board lasts from the moment of their appointment until the moment of their removal by appropriate decision or their resignation.

Compensation and remuneration

Board members are not entitled to a compensation for session attendance.

Corporate Governance Code

The Corporate Governance Code of NLB Banka AD Skopje, adopted by the Supervisory Board of NLB Banka AD Skopje sets out in more detail the standards of management of the bodies of NLB Banka AD Skopje. Guided by these standards, the Bank has established a clear organizational structure and a transparent and understandable management system that enhances the level of confidence by both domestic and foreign investors, the employees and the general public.

Pursuant to the amendments and the supplements to the Banking Law, as well as the Decision on Good Corporate Governance for banks of NBRNM, the Corporate Governance Code is subject to regular annual review by the Supervisory Board.

At the Supervisory Board session held on 06.08.2020, an annual revision of the Corporate Governance Code was made and the existing Corporate Governance Code in NLB Banka AD Skopje was harmonized with the revised text of the Statute of NLB Banka AD Skopje after received prior consent from the NBRSM for amendments to the Statute of the Bank from 23.03.2020, and additionally considering that NLB Banka AD Skopje is part of the NLB Group, the Code is harmonized with the Corporate Governance Policy of the NLB Group and its General Internal Rules and regulations.

Statement for application of the Corporate governance Code

Pursuant to the Law on Amendments to the Law on Trade Companies, which entered into force on 14.12.2020, the Members of the Bank's Management board have individually issued a Statement on the application of the Code of Corporate Governance, in Annex 1 of this Report.

The content of the statement given by each member is as follows: "The Corporate Governance Code of NLB Banka AD Skopje defines in more detail the standards of management and governance of the bodies of NLB Banka AD Skopje and guided by them the Bank establishes a clear organizational structure, transparent and understandable management system that increases the level of trust at home, as well as foreign investors and employees.

I declare that NLB Banka AD Skopje applies the Corporate Governance Code of the Bank (No. 0309 - 55/2020) approved by the Supervisory Board of the Bank and it is publicly available on the Bank's website www.nlb.mk.

Deviations from the rules of the Corporate Governance Code of NLB Banka AD Skopje do not exist and the rules of the Code are an obligation for all bodies of the Bank, as well as for its employees"

The Corporate Governance Code of NLB Banka AD Skopje is publicly available on the Bank's website.

Significant transaction and transaction with an interested party

During 2020, the Bank did not realize any large transaction, nor transaction with an interested party, as defined by the Company Law.

Remuneration policy

The Bank has established an efficient system for monitoring and evaluating the performance of the key employees of the Bank (the Management Board and the persons with special rights and responsibilities) defined as persons with a special nature of work, in accordance with the criteria defined in the Policy for remuneration for persons with a special nature of work in the Bank.

The Remuneration policy is intended to direct employees with special nature of work not to take disproportionately big risks, i.e., risks that go beyond the Bank's ability to take risks, taking into account all risks, including reputational risks and risks arising from wrong or unethical selling of products or other unethical or inappropriate behaviour.

Employees with a special nature of work are entitled to a variable part of the salary based on their assessment regarding the achievement of defined financial and non-financial criteria for success of persons with a special nature of the Bank's work.

The Policy for rewarding the employees with a special nature of the work in NLB Banka AD Skopje defines these criteria in more detail depending on the function and the category of persons with a special nature of the work.

The objectives of each member of the Management Board of the Bank are composed of NLB Group objectives, NLB Banka AD Skopje objectives and the individual objectives and should be financial and non-financial.

The criteria for determination of the performance of other employees with special nature of work in the Bank shall consist of:

- the objectives of NLB Banka AD Skopje which apply to all employees with a special nature of work, but do not apply for the Bank's control and supervisory functions, with the exception of the risk management function (due to the specificity of the credit risk management competence affecting the Bank's financial results);
- the objectives of the organizational unit of employees with a special nature of work arising from the objectives of NLB Banka AD Skopje organizational unit where the employee with a special nature of work takes risks and includes the following areas:
 - organizational unit business objectives, project objectives, and cross functional goals and
 - financial objectives of the organizational unit (if specified).
- individual/personal goals of employees with a specific nature of work (development, project management/other goals) defined by the immediate supervisor for each business year.

With the Policy, as a rule for evaluating the success of control and supervision functions, emphasizes the achievement of the stated objectives of the control and the supervision functions and authorizations, which must be independent from the performance of the supervising organizational unit.

Pursuant to the Decision on Good Corporate Governance Rules for banks, the Bank announces the compensations related to the total remuneration paid in 2020 by individual groups, separately showing the fixed and variable part of the remuneration paid and the number of persons in the separate group and the structure of the total remuneration according to the amount and the number of persons who have been paid the appropriate amount of the total remuneration (shown in Tables 16 and 16-a). The calculations include all persons for whom the Bank made a payment during 2020.

The total remuneration is determined according to the following criteria:

- Fixed remunerations include the following payments: gross salaries, compensations and salary supplements, all compulsory living expenses compensations under the Labour Law, the collective agreements and individual agreements between the Bank and the employee, as well as compensations received by the individual whose payment terms and their amount depend on pre-established criteria (compensation for separate life, compensation for working overseas, vacation recess, jubilee award, severance pay, New Year's compensation, compensation for participation at a session for the members of the Supervisory Board and of the Audit Committee).
- Variable remunerations include all payments that are not considered to be fixed (insurance of managers, payment to a third voluntary pension fund, payment under a managerial contract and other compensations).

Table 16. Remuneration according to the Decision on good corporate governance rules for banks

Structure of persons (groups)	Number of persons who have been paid remuneration during 2020	Structure of remuneration (in MKD)		
		Fixed part	Variable part	Total remuneration
Supervisory Board	7	368.323	-	368.323
Audit Committee	3	157.373	-	157.373
Management Board	4	30.405.292	7.288.804	37.694.096
Other persons with special rights and responsibilities	38	73.343.691	14.643.966	87.987.657
Employed persons	887	587.273.932	115.287.488	702.561.419
Other persons, previously employed in the Bank	5	14.251	2.666.119	2.680.370
Total	944	691.562.861	139.886.377	831.449.238

Table 16-a

The amount of gross remuneration paid by the Bank during 2020 (per employee, ranging from-to)	Number of persons	Total gross amount (MKD)
up to 500.000 MKD	118	23.176.206
from 500.000 to 750.000 MKD	306	200.476.105
from 750.000 to 1.000.000 MKD	299	254.480.994
from 1.000.000 to 2.000.000 MKD	187	242.747.214
above 2.000.000 MKD	31	110.568.720
Total	941	831.449.238

Policy on using outsourcing services

The use of outsourcing services by the Bank is formally regulated under the NLB Banka AD Skopje Policy on using outsourcing services, which describes in detail the procedure and manner of using such services, in accordance with the provisions of EBA Guidelines on outsourcing arrangements and the Decision for risk management by NBRNM.

The Policy strictly regulates the rules regarding the use of outsourcing with:

- The basic principles and guidelines for managing risks arising from the use of outsourcing;
- The manner of conducting the analysis for selecting a potential outsourcing supplier;
- The manner of checking the quality of the services provided by outsourcing persons and the conditions for efficient monitoring of their work;
- The manner of providing continual operation for the services used by outsourcing persons;
- Defining strategic measures in the event of expected or unexpected termination of the contractual relationship with the outsourcing provider.

Within the framework of the Policy, outsourcing services were used in 2020, of which the most important for the overall operation of the Bank are the services in the following areas:

- Development, maintenance and management of information infrastructure;
- Archival and documentary work;
- Work in the field of self-service products, cards, ATMs, digital communication channels;
- Transport of valuables;
- Collection of receivables.

The Bank acts to optimize the relation between the price and quality of the products and services purchased, as well as the efficient use of the Bank's resources and the selection of the most appropriate outsourcing supplier.

Conflict of Interest Management Policy

The policy of conflict of interest management and prevention of corruption in NLB Banka AD Skopje is aimed at protecting the interests of the Bank in the event of transactions that may lead to personal gain over the overall interest of the Bank. The Policy establishes and maintains a system of effective control and management of conflicts of interest that may arise in the performance of certain activities to the detriment of the interests of clients or potential clients of the Bank. The Conflict of Interest Management Policy applies to all employees of the Bank, including members of the management bodies, i.e. the Management Board and the Supervisory Board, qualified shareholders in the Bank, significant business partners and clients, other Bank-related entities and all other persons related to the foregoing. According to the Banking Policy and the Banking Law, persons with special rights and responsibilities regularly submit a written statement every six months to the Supervisory and to the Management Board of the Bank on the existence or non-existence of a conflict of their personal interest with the Bank's interest.

Policy for the Assessment of Suitability of Key Function Holders

The policy for assessing the suitability of the holders of key offices in NLB Banka AD Skopje determines the procedure for preparing the adequacy of holders of key offices assessment, i.e. the candidates for key offices and the criteria for preparing the adequacy of holders of key offices assessment, i.e. candidates for key office holders. The policy has been prepared in accordance with the provisions of the Banking Law and the NBRNM Decision on Good Corporate Governance rules for banks which specify the qualifications required to be possessed by the members of the Supervisory Board, the Management Board, the Audit Committee, the Risk Management Committee, as well as the other Persons with special rights and responsibilities set forth in the Statute of NLB Banka AD Skopje. In addition, this Policy incorporates the guidelines of ESMA (European Securities and Market Authority) and EBA (European Banking Authority) for assessing the adequacy of members of the management or supervisory bodies and of the key offices holders in banks.

Preventing Money Laundering and Financing of Terrorism

In dealing with clients, the Bank is exposed to a variety of risks, including the risk of money laundering and terrorist financing being one of the foremost risks in the financial industry. In order to prevent this kind of risk, the Bank has adopted and consistently applies the Program for Money Laundering and Financing of Terrorism Prevention and the relevant internal acts that regulate this area and also cooperates with the competent institutions and correspondent banks. The Bank has fully implemented all instruments deriving from the positive regulations and NLB Group policies aimed at efficient detection and prevention of money laundering and terrorist financing.

Information System Security

The information security of NLB Banka is implemented in accordance with the Decision for the Bank's Information System Security Methodology and the international standards ISO 27001 and 27002. According to the above, within the Bank an information security system has been established, which includes:

- Risk Assessment – through established continuous process of identifying weaknesses and threats to its information systems, including the risk of attacks in the digital space;
- Implementation of security controls - through incident monitoring and operational controls (administrative, physical and technical controls) to protect the security of information and systems at multiple levels;
- Monitoring and upgrading - through an established process of continuous collection and analysis of information in terms of emergence of new threats and weaknesses of the information system, including threats in the digital space;
- Implementation of security controls - by monitoring incidents and operational controls (administrative, physical and technical controls) which protect the security of information and systems at multiple levels;
- Testing the security and testing the resistance of the systems to attacks in the digital space;
- Division of competencies of the Bank's bodies from the aspect of risk management related to the security of the information system;
- Business Continuity Assurance –through defined business continuity plan that will be based on multiple scenarios and will enable operation and minimize losses in the case of a severe disruption to the business processes.

Organizational structure of the Bank

The organizational structure of NLB Banka did not undergo significant changes during 2020, having in mind that the changes made in the organization were aimed at further adjusting and clarifying the responsibilities of the existing organizational units.

The organizational structure as of 31.12.2020 is shown in Annex 2 of this report.

Share capital and ownership structure

Share capital

The Bank's share capital on 31.12.2020 consists of 854,061 ordinary shares with a nominal value of MKD 1,000 per share or a total of MKD 854,061,000. The shares are registered and entered with the Central Securities Depository of RNM.

The ordinary shares give the owners the right to dividend and voting right at the shareholders' assembly. An ordinary share carries the right to one vote.

According to the Bank's share book, on 31.12.2020, 816 ordinary shares i.e. 0.0955% of the total share capital of the Bank (2019: 816 ordinary shares i.e. 0.0955%) have limitation of shares with voting right based on law and/or a decision of a competent authority.

During 2020, the Bank did not issue any new issue of shares, nor did it repurchase its own shares.

Number of shareholders and structure

On 31.12.2020, the number of shareholders in the Bank is 939 (2019: 895). Of these, 801 are individuals (2019: 764) and 138 are legal entities (2019: 131).

Table 17. Shareholders structure

	2020	
Shareholders structure	Number of shares	% of shares
NLB d.d.	742.804	86,97%
Other shareholders	111.257	13,03%
Individuals	80.080	71,98%
Legal entities	31.177	28,02%

The sole shareholder with a share of over 5% in the total number of issued shares of NLB Banka AD is Nova Ljubljanska Banka d.d. Ljubljana, with 86.97% stake (742.804 shares) in the total number of shares of the Bank. NLB d.d. as the biggest shareholder manages the Bank through its representatives in the Supervisory Board. The NLB Group is the largest banking and financial group in the Republic of Slovenia, with a strategic focus on selected markets of the SEE countries and is a recognized international brand. Since November 2018, the shares of NLB d.d. Ljubljana are listed on the stock market, while at the same time, the shares of NLB d.d. were included in the trading on the main market of the London Stock Exchange. During 2019, the privatization process of NLB d.d. Ljubljana was finalized, with which the Republic of Slovenia remained the dominant owner with 25% of the shares plus one ordinary share.

Stock exchange listing

The Bank's shares are listed on the official market of the Macedonian Stock Exchange under the mandatory listing segment - ordinary shares, registered under ISIN: MKTNBA101019. The Bank's shares are traded on the secondary market on the Stock Exchange through authorized brokerage houses.

The Bank's shares are part of the Macedonian Stock Exchange Index MBI10.

In accordance with the Listing Rules, the Bank regularly reports to the Stock Exchange on its operations, on the members of its management, the management and the legal relations with third parties and on events and information relevant to the Bank's operations according to pre-determined Calendar of events that is published on the information service of the Stock Exchange no later than the end of January of the current year.

Dividend policy

Pursuant to the decisions on issuance of shares of the Bank, the shares are entitled to a dividend, which may be determined by a decision of the Bank's Shareholders Assembly.

The payment of dividends depends on a number of factors, including the Bank's capital structure, risk appetite, profit, financial position, regulatory requirements, general economic and business conditions and future prospects.

The Bank's dividend policy envisages an annual dividend distribution of approximately 70% of the profit in the year for which the dividend is payable and is dependent on regulatory capital requirements.

The minimum level of capital (expressed as the capital adequacy ratio) that the Bank has to meet during the year is 15.5%, including the internal management buffer of 0.5%.

Considering the economic crisis caused by the Covid 19 pandemic, on 04.11.2020 a notification was submitted to the Bank by the National Bank of the Republic of North Macedonia, indicating that the National Bank's recommendations submitted to all banks remain with a notification from March 20, 2020, regarding the expectation of the banks to refrain from paying dividends from the realized profit in 2019. It is emphasized again that banks should give priority to preserving their capital resources, strengthening their solvency position and further supporting the economy, which is in line with the indications and measures taken by the European Central Bank and central banks in the region. For the fulfillment of this recommendation, in accordance with the Decision adopted at the assembly held on 30.11.2020, in 2020 no dividend payment was made for 2019.

XVI. Strategy and future outlooks

Based on the updated Strategy of the NLB Group, during 2020, the Bank adopted the Budget for 2021 and the financial projections for the period 2021-2025, which focuses on creating an improved customer experience based on technological innovation, changes in the work processes and further automation and digitalization of the work, as well as a focus on education and upgrading of competencies and knowledge of employees of different levels, in order to create the desired organizational culture as a foundation for providing top customer service.

The main focus of the Bank will continue to be lending to households and companies, as well as customer support in projects to restart businesses and implement investment activities. The activities will be aimed at providing greater availability and simplification of banking services and sophisticated and modern user experience tailored to the needs and requirements of customers.

Digitalization, especially after the past 2020, will continue to be at the center of activities and will be one of the strategic commitments of the Bank. It is planned to further expand the product portfolio with innovative products and services in accordance with world trends, in parallel with providing quality customer service through traditional channels.

Regarding the development of digital functionalities, we will work with full commitment on providing new innovative products that will enable greater availability of banking services and facilitated interaction, in order for online interactions and transactions for customers to be much simpler, faster and most importantly more secure.

Customer experience and client satisfaction is the starting point and remains the focus, so that services are available at all times to end users. In that direction, the activities for personalized approach to the clients, intuitive services that recognize their needs and requirements, digitalized sales as well as sale of products through self-service channels, such as ATMs and mobile banking, will be intensified.

In the future, the Bank will continue to be a serious partner and support for all segments of social life. An integral part of the Bank's strategy is the care for the common good as one of the highest priorities in the value system. By supporting projects in the field of culture, sports, science, education, environment, children and youth, the Bank strives to contribute in improving the overall quality of life of individuals, families, institutions and organizations.

Annexes

Annex 1. Statements on the application of the Corporate Governance Code

Statement on the application of the Corporate Governance Code by the President of the Management Board Antonio Argir



**Изјава
за примена на Кодекс за корпоративно управување на НЛБ Банка АД Скопје**

Кодексот за корпоративно управување на НЛБ Банка АД Скопје подетално ги определува стандардите на управување и раководење на органите на НЛБ Банка АД Скопје и водејќи се од истите Банката воспоставува јасна организациска структура, транспарентен и разбирлив систем на управување кој го зголемува нивото на доверба како на домашните, така и на странските инвеститори, и на вработените.

Изјавувам дека НЛБ Банка АД Скопје го применува Кодексот за корпоративно управување на Банката (бр. 0309 - 55/2020) одобрен од страна на Надзорниот одбор на Банката и истиот е јавно достапен на веб страна на Банката www.nlb.mk.

Отстапувања од правилата на Кодексот за корпоративно управување на НЛБ Банка АД Скопје не постојат и правилата на Кодексот претставуваат обврска за сите органи на Банката, како и за нејзините вработени.

Скопје, Јануари 2021 година

Antonio Argir
Претседател на
Управен одбор

Statement on the application of the Corporate Governance Code by the Member of the Management Board Peter Zelen



**Изјава
за примена на Кодекс за корпоративно управување на НЛБ Банка АД Скопје**

Кодексот за корпоративно управување на НЛБ Банка АД Скопје подетално ги определува стандардите на управување и раководење на органите на НЛБ Банка АД Скопје и водејќи се од истите Банката воспоставува јасна организациска структура, транспарентен и разбирлив систем на управување кој го зголемува нивото на доверба како на домашните, така и на странските инвеститори, и на вработените.

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Скопје, Јануари 2021 година

Digitally signed by Peter
Zelen
Date: 2021.01.15
17:04:49 +01'00'

Peter Zelen
Петер Зелен
Член на Управен одбор

Statement on the application of the Corporate Governance Code by the Member of the Management Board Gunter Friedl



Изјава за примена на Кодекс за корпоративно управување на НЛБ Банка АД Скопје

Кодексот за корпоративно управување на НЛБ Банка АД Скопје подетално ги определува стандардите на управување и раководење на органите на НЛБ Банка АД Скопје и водејќи се од истите Банката воспоставува јасна организациска структура, транспарентен и разбирлив систем на управување кој го зголемува нивото на доверба како на домашните, така и на странските инвеститори, и на вработените.

Изјавувам дека НЛБ Банка АД Скопје го применува Кодексот за корпоративно управување на Банката (бр. 0309 - 55/2020) одобрен од страна на Надзорниот одбор на Банката и истиот е јавно достапен на веб страна на Банката www.nlb.mk.

Отстапувања од правилата на Кодексот за корпоративно управување на НЛБ Банка АД Скопје не постојат и правилата на Кодексот претставуваат обврска за сите органи на Банката, како и за нејзините вработени.

Скопје, Јануари 2021 година

Gunter
Mag.
Friedl
MBA

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by Gunter Mag.
Friedl MBA
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Гинтер Фриедл
Член на Управен одбор

Statement on the application of the Corporate Governance Code by the Member of the Management Board Igor Davchevski



Изјава за примена на Кодекс за корпоративно управување на НЛБ Банка АД Скопје

Кодексот за корпоративно управување на НЛБ Банка АД Скопје подетално ги определува стандардите на управување и раководење на органите на НЛБ Банка АД Скопје и водејќи се од истите Банката воспоставува јасна организациска структура, транспарентен и разбирлив систем на управување кој го зголемува нивото на доверба како на домашните, така и на странските инвеститори, и на вработените.

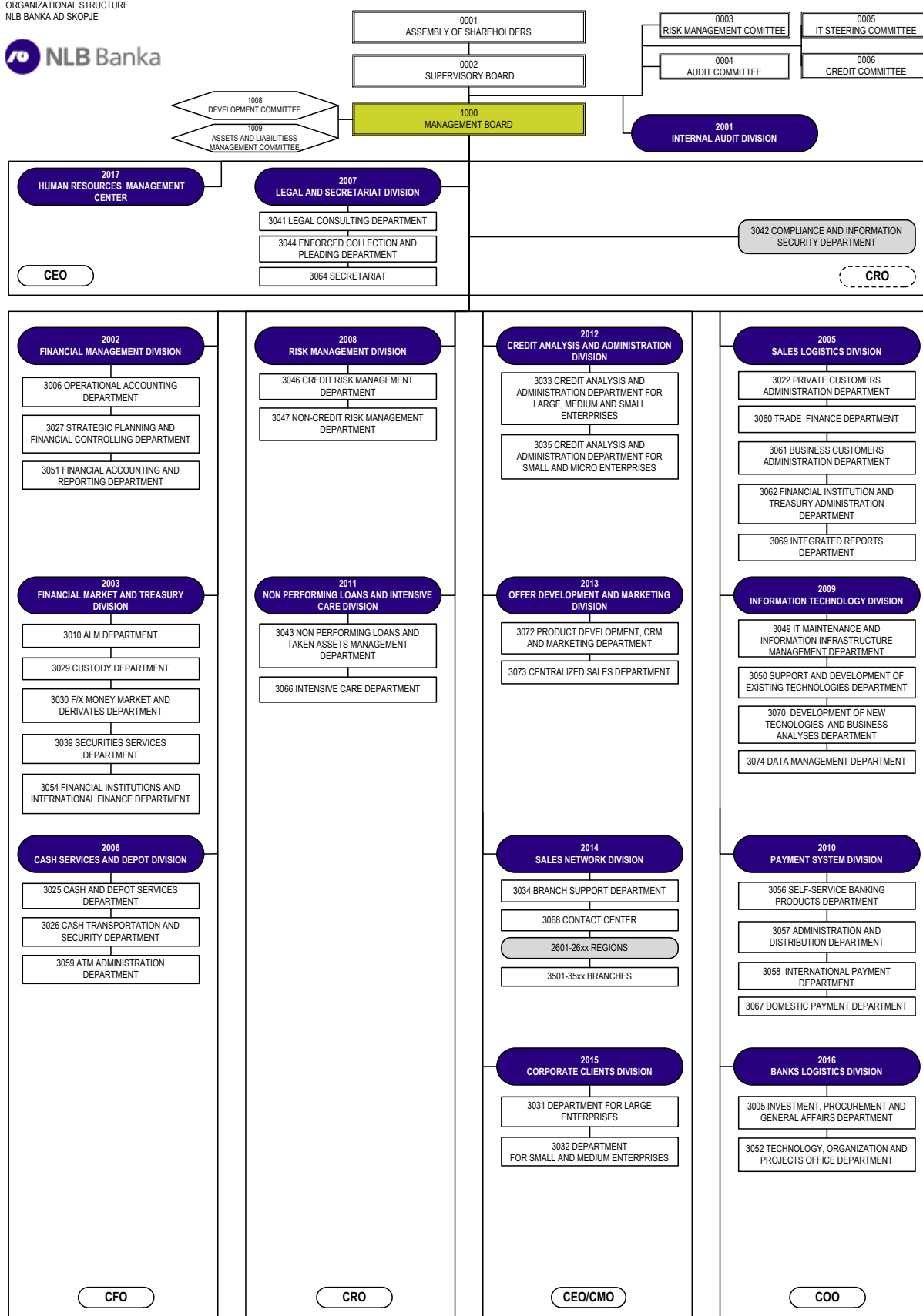
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Скопје, Јануари 2021 година

Игор Давчевски
Член на Управен одбор

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Davchevski
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Annex 2. Organizational structure of NLB BankaORGANIZATIONAL STRUCTURE
NLB BANKA AD SKOPJE


Skopje, March 2021



Donka Markovska
Manager of Financial
Management Division



Igor Davchevski
Member of the
Management board



Günter Friedl
Member of the
Management board



Peter Zelen
Member of the
Management board



Antonio Argir
President of the
Management board



Opinion on the Annual report of the Bank for 2020

The annual operational report of NLB Banka AD Skopje for 2020 covers Bank's operation in the period from 01.01.2020 until 31.12.2020. In the report, the realization of individual banking activities, both with regard to the main financial activities and to all other activities are presented in a systematized way, which have to be reported pursuant to the Company Law, the Banking Law and the Decision on good corporate governance rules for banks.

The report includes data on the changes of the macroeconomic and market conditions the Bank was operating under and the changes of the regulation which directly or indirectly affected the achievement of the financial result and the market position.

The achieved financial results and the achievement of the planned business and strategic goals for 2020 are presented pursuant to the legal regulations applicable in the RNM.

The operational activities are presented in more details as per separate market segments and show the achieved results as per Bank's individual financial and nonfinancial activities.

Bank's way of risk management is presented in detail and shows existence of an integrated risk management system in the Bank. Additionally, are presented information about the human resources management in the Bank, the information technology management, the marketing activities carried out as preconditions for successful operation, better and higher quality management of the Bank, respect of and compliance with all legal regulations and achievement of the goals planned for 2020.

In the report are integrally presented Bank's corporative management, the operation and the activities of the bodies and their members, the fulfilment of the obligations referring to prevention of money laundering and information system safety, the changes of Bank's organizational structure and the activities for promotion of corporative social responsibility. The report provides a complete picture on the conditions and changes of Bank's own funds and the shareholders structure about shareholders with a share of over 5% in Bank's capital.

According to our opinion, the Annual Report reflects a fair and objective picture of the Bank's operation in 2020, the condition of its financial position and its financial performance.

Blaž Brodnjak
President of the Supervisory Board



Annual Shareholders Assembly of NLB Banka AD Skopje

Proposal-Decision on the adoption of the Annual Report on the operations of NLB Banka AD Skopje

Pursuant to Article 39 of the Statute of NLB Banka AD Skopje, the Assembly of NLB Banka AD Skopje adopted the following:

Decision on adoption of the Annual Report on the operations of NLB Banka AD Skopje

1. The Annual Report on the operations of NLB Banka AD Skopje for 2020 is adopted with the opinion of the Supervisory Board regarding the same, annex to this decision;
2. This decision shall enter into force on the day of its adoption.

In Skopje, 29.04.2021

The decision shall be submitted to:
Secretariat

Chairman
of the Annual Shareholders Assembly
of NLB Banka AD Skopje