

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

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

### **Annual report on the work of the Supervisory Board of NLB Banka AD Skopje in 2020 with included results of individual and collective evaluation of the work of the members of the Supervisory Board for 2020**

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

#### **Annual report on the work of the Supervisory Board of NLB Banka AD Skopje in 2020 with included results of individual and collective assessment of the work of the members of the Supervisory Board for 2020**

In addition:

- Annual report on the work of the Supervisory Board of NLB Banka AD Skopje in 2020 with included results of individual and collective evaluation of the work of the members of the Supervisory Board for 2020
- Proposal-Decision for adoption of the Annual Report on the work of the Supervisory Board of NLB Banka in 2020 with included results of individual and collective assessment of the work of the members of the Supervisory Board for 2020

Skopje, April 2021

## **Annual Report for the work of the Supervisory Board of NLB Banka AD Skopje for 2020**

In accordance with the NBRNM's Decision on the Rules for Good Corporate Governance, the Supervisory Board submits an annual report for the operations of the Bank's Shareholders Assembly, and pursuant to Article 39 of the Statute, the Shareholders Assembly approves the Report on the operations of the Supervisory Board and approves the work of every member of the Supervisory Board, individually.

The Supervisory Board of NLB Banka is an independent management body that performs all its activities in accordance with the legislation and the Bank's Statute and Corporate Governance Code.

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

### **I. Structure of the Supervisory Board (composition of the Supervisory Board)**

In 2020, the Bank's Supervisory Board was composed of six members:

- Blaž Brodnjak - President of the Supervisory Board of NLB Banka AD Skopje
- Marjeta Zver Cankar – Deputy President of the Supervisory Board of NLB Banka AD Skopje
- Hedvika Usenik - Member of the Supervisory Board of NLB Banka AD Skopje
- Kristina Kovačič Bjelajac - Member of the Supervisory Board of NLB Banka AD Skopje
- Zoran Jovanovski - Independent member of the Supervisory Board of NLB Banka AD Skopje
- Mateja Treven - Independent member of the Supervisory Board of NLB Banka AD Skopje

The members of the Bank's Supervisory Board are elected by the Shareholders Assembly with a majority vote of the voting shares. 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, which consists of six members, are independent members.

The independence of the two members of the Bank's Supervisory Board is determined in accordance with the criteria for independence set forth in the Law on Banks, i.e. the independent member is a physical entity and related persons, who is:

- Not employed or not a person with special rights and responsibilities in the Bank.
- Not a shareholder with qualified holding in the Bank or does not represent a shareholder with qualified holding in the Bank.
- Does not work, i.e., in the last three years has not worked in an audit company that during that period audited the operations of the Bank and
- In the last three years, had no material interest or business relationship with the Bank in an amount exceeding MKD 3.000.000,00 on average.

The Bank has been monitoring these criteria and their implementation and compliance, continuously throughout the year.

The mandate of the members of the Supervisory Board is 4 (four) years, and each year the annual Assembly decides to approve the work of each member individually.

On 22.02.2020 and 27.05.2020, the mandates of the independent members Mr. Abdulmenaf Bedjeti and Mr. Borislav Atanasovski came to an end. Having in mind the limitation in the Law on Banks, that the same person cannot be an independent member of the supervisory board in the same bank for more than three consecutive mandates, the Bank began a procedure to appoint new independent members of the Supervisory Board.

On 30.03.2020 the Bank received a Decision by the NBRNM no. 15-2405/6 dated 26.03.2020, issuing prior consent to appoint Mr. Zoran Jovanovski as an independent member of the Bank's Supervisory Board, and on 20.10.2020 the bank received a Decision by the NBRNM no. 15-13512/9 dated 19.10.2020, issuing prior consent to appoint Mrs. Mateja Treven as an independent member of the Bank's Supervisory Board.

Before the end of 2020, on 23.10.2020 Mrs. Hedvika Usenik resigned the function, member of the Supervisory Board and Audit Committee.

To supplement the composition of the Supervisory Board of NLB Banka AD Skopje, NLB d.d. Ljubljana proposed to appoint Mr. Borut Vujčič as a new member of the Supervisory Board and Audit Committee of NLB Banka AD Skopje for the remainder of the mandate of Mrs. Hedvika Usenik, i.e., until 11.09.2021. The procedure for issuing consent by the NBRNM is on-going.

## **II. Supervisory Board sessions and the regular attendance of each member at the sessions of the Supervisory Board**

During 2020, the Supervisory Board held 13 sessions in the Bank's business premises or by using audio and visual communication equipment and via the digital channels Skype for Business and Microsoft Teams. Six sessions were held via correspondence.

Due to the Covid-19 pandemic, starting from March 2020, the sessions of the Supervisory Board were held by using the digital channels Skype for Business and Microsoft Teams.

At its sessions the Supervisory Board decided in accordance to the Statute and the Rules of Procedure, and decisions were made by majority vote.

The work of the Supervisory Board was continuously attended by all members with the exception of the justified absence of some members from several sessions, and all members contributed to the successful work of the Supervisory Board.

During 2020, the Supervisory Board held the following sessions:

- 76<sup>th</sup> (videoconference) session held on 30.01.2020 in the presence of all members of the Supervisory Board
- 77<sup>th</sup> (videoconference) session held on 24.02.2020 in the presence of all members of the Supervisory Board
- 78<sup>th</sup> (video conference) session held on 06.03.2020 in the presence of all members of the Supervisory Board
- 79<sup>th</sup> (videoconference) session held on 25.03.2020, in the presence of all members of the Supervisory Board
- 80<sup>th</sup> (correspondent) session, which was sent to the President and the members of the Supervisory Board on 06.04.2021, and closed by giving consent regarding the materials and decisions by the President and all members of the Supervisory Board on 06.04.2020
- 81<sup>st</sup> (videoconference) session held on 22.04.2020 in the presence of all members of the Supervisory Board
- 82<sup>nd</sup> (correspondent) session held on 15.05.2021 which closed by giving consent regarding the materials and decisions by the President and all members of the Supervisory Board on 15.05.2020
- 83<sup>rd</sup> (correspondent) session held on 09.07.2020, and closed by giving consent regarding the materials and decisions by the President and all members of the Supervisory Board on 09.07.2020
- 84<sup>th</sup> (videoconference) session which was sent to the President and the members of the Supervisory Board on 06.08.2020 in the presence of all members of the Supervisory Board

- 85<sup>th</sup> (correspondent) session which was sent to the President and the members of the Supervisory Board on 30.09.2020, and closed by giving consent regarding the materials and decisions by the President and all members of the Supervisory Board on 01.10.2020
- 86<sup>th</sup> (correspondent) session which was sent to the President and the members of the Supervisory Board on 23.10.2020, and closed by giving consent regarding the materials and decisions by the President and all members of the Supervisory Board on 28.10.2020
- 87<sup>th</sup> (videoconference) session which was sent to the President and the members of the Supervisory Board on 06.11.2020 in the presence of all members of the Supervisory Board
- 88<sup>th</sup> (correspondent) session which was sent to the President and the members of the Supervisory Board on 11.12.2020, and closed by giving consent regarding the materials and decisions by the President and all members of the Supervisory Board on 11.12.2020

### **III. Manner of realizing competencies (operations of the Supervisory Board)**

In 2020, the Supervisory Board performed its activities responsibly aimed at ensuring good performance and management and stability of the Bank, as well as timely and accurate financial reporting to the National Bank of the Republic of North Macedonia. The Supervisory Board, in particular, directed its activities and operations towards continuing the Bank's profitable operations and maintaining the Bank's leading position in the Banking Sector in the Republic of North Macedonia.

Considering the situation in 2020 on a global level, the Supervisory Board was regularly informed regarding the situation caused by the Covind-19 pandemic, as well as the mechanisms used by the bank to manage the same, directed toward determining a set of measures made in order to more successfully handle the pandemic.

The Supervisory Board appreciated the adjustment of the Bank's operations in the new work conditions caused by the pandemic.

For the purpose of regular reporting on the Bank's operations, for each Supervisory Board session an agenda and Minutes from the previous session were prepared.

In order to ensure sound financial operations, the Supervisory Board reviewed adequate financial data and analysis (both through the Information on on-going activities of NLB Banka AD Skopje and through the Report of the Risk Management Committee, which were reviewed at each board session) and which included comparative financial statements and appropriate financial indicators, i.e. constantly checking whether the Management Board fulfilled the set objectives, whether the changes in the environment made the plan unrealistic for realization, whether the revenues are a result of the implementation of the planned strategies, whether the revenue is increasing, whether the Bank has sufficient capital, etc. The Supervisory Board constantly monitored the adequacy of the Bank's capital through the information provided by the Management Board.

In accordance with the NLB Group corporate governance guidelines, the recommendation from the supervision by the NBRNM and the Law on Banks of the Republic of North Macedonia, the Supervisory Board once quarterly reviewed the:

- Report on the operation of the Audit Committee;
- Report on the operation of the Internal Audit Division;
- Information on related party' transactions with the Bank;
- Report by the Compliance and Information Security Department;
- Standardized report on risk management;
- Report on the amount and type of assumed assets, activities for their sale and status of realization of the plans for sale etc.

Pursuant to Article 89 of the Law on Banks of the Republic of North Macedonia, the Supervisory Board reviewed and approved decisions on exposure to an individual of over 20% of the Bank's own funds, as well as decisions on approval of transactions of related parties with the Bank in the amount of more than

MKD 6.000.000. The Supervisory Board also reviewed the reports on the controls carried out at the Bank by the relevant institutions. Pursuant to Article 83b of the Bank's Statute, the Supervisory Board also reviewed the Information on the operation of the IT Steering Committee, while in line with the recommendations of the NBRNM, the Supervisory Board also reviewed the Report on client satisfaction with the bank's operations on a semi-annual basis.

In addition, the Supervisory Board reviewed the Information and Minutes of the controls performed by the regulatory bodies as follows:

- Information regarding the Minutes from the on-site control performed by the Central Securities Depository over the operations of the Securities Services Department
- Information regarding the realized inspection supervision of employment and safety and health during work within NLB Banka AD Skopje (Head Office and Branch Office Sveti Nikole)
- Information regarding the Minutes from performed extraordinary inspection supervision in NLB Banka AD Skopje by the Personal Data Protection Agency
- Information regarding the realized inspection supervision in the area of employment within NLB Banka AD Skopje (Head Office and Branch Office Ohrid)
- Information regarding the Minutes from the control performed by the Securities Committee over the operations of the Securities Services Department
- Information regarding the realized inspection supervisions in several branch offices of NLB Banka AD Skopje

At the sessions of the Supervisory Board the changes in the legislation and the NBRNM's Decisions were discussed, whereupon according to the obligations arising from the Law on Banks, the Decision for Risk Management by the NBRNM (Official Gazette of the Republic of Macedonia No. 42/2011 and its amendments) for annual review of the Bank's risk management policies, the Decision on Information System Security (Official Gazette of the Republic of Macedonia No. 31/2008 and its amendments), the Law on Prevention of Money Laundering and Financing of Terrorism (Official Gazette of the Republic of Macedonia, no.130/2014 and its amendments) and the NBRM's Decision on Rules for Good Corporate Governance (Official Gazette No. 24/18 and its amendments), the Supervisory Board has reviewed, amended or adopted the following acts:

- Methodology for determining the risk profile of NLB Banka AD Skopje
- Methodology for determining the internal capital of NLB Banka AD Skopje
- Policy for instruments of individual and group impairments and credits risk reservations in NLB Banka AD Skopje
- Policy for instruments for collateral of claims in NLB Banka AD Skopje
- Policy for Foreign Exchange Operations
- Policy for Financial Derivatives Trading
- Rulebook for establishing internal controls in NLB Banka AD Skopje
- Loan policy for physical entities in NLB Banka AD Skopje
- Report on the status of the implementation of the Policy for Use of Outsourcing Services in NLB Banka AD Skopje
- Proposal-decision for adopting the Policy for Currency Risk Management in NLB Banka AD Skopje
- Proposal-decision for adopting the Rulebook on Organization and Systematization of workplaces in NLB Banka AD Skopje
- Proposal-decision for amending and modifying the Policy for Use of Outsourcing Services in NLB Banka AD Skopje
- Proposal-decision for amending and modifying the Policy on the manner of choosing, monitoring of operations and dismissal of the members of the Supervisory Board, Audit Committee, the Management Board and the Risk Management Committee
- Policy for Capital Management and Capital Adequacy of NLB Banka AD Skopje
- Policy for Liquidity Risk Management of NLB Banka AD Skopje
- Policy for Credit Risk Management of NLB Banka AD Skopje
- Policy and Methodology for Operational Risk Management of NLB Banka AD Skopje

- Policy for approving loans to non-financial companies in NLB dd and the NLB Group
- Policy for calculation of individual and group impairments and credit risk reservations in NLB Banka AD Skopje
- Proposal-decision for adopting the Policy for restructuring of physical entities of NLB Banka AD Skopje
- Recovery Policy of NLB Banka AD Skopje
- Policy for Reputational Risk Management of NLB Banka AD Skopje
- Policy for Country Risk Management of NLB Banka AD Skopje
- Policy for Exposure Concentration Risk Management of NLB Banka AD Skopje
- Policy for Strategic Risk Management of NLB Banka AD Skopje
- Policy for Interest Risk Management of NLB Banka AD Skopje
- Policy for approving loans to non-financial companies in NLB Banka AD Skopje
- Policy for Brand Management in NLB Banka AD Skopje
- Rulebook on Organization and Systematization of workplaces in NLB Banka AD Skopje
- Policy for Information System Security in NLB Banka AD Skopje
- Policy for Legal Risk management in NLB Banka AD Skopje

In accordance with Article 89 of the Law on Banks of the Republic of North Macedonia and pursuant to Article 56 of the Statute of the NLB Banka, the Supervisory Board on an annual level reviewed and accepted:

- Annual Report on the operations of the Supervisory Board for 2019, including performance evaluation;
- Annual Report on the operations of the Audit Committee Operations for 2019, including performance evaluation;
- Annual Report on the operations of the Risk Management Committee Operation for 2019, including performance evaluation;
- Annual Report on the operations of the Internal Audit Division for 2019;
- Annual Report on the operations of the Management Board for 2019 etc.

The Supervisory Board at the Annual Assembly of the Bank held on 23.04.2020 gave written opinions on the Annual Report on the Bank's operations and on the Report from the audit firm Ernst&Young certified auditors-DOO Skopje on auditing the financial statements of NLB Banka AD Skopje for 2019, prepared in accordance with local regulations and International Financial Reporting Standards.

The Supervisory Board approved and proposed the following materials for adoption at the Annual Assembly held on 23.04.2020:

- Annual report for the work of NLB Bank AD Skopje;
- Annual Report for the work of the Supervisory Board of NLB Banka AD Skopje for 2019, including performance evaluation;
- Annual Report for the work of the Management Board of NLB Banka AD Skopje for 2019;
- Proposal-decision for amending the Statute of NLB Banka AD Skopje;
- Proposal-decision for approval of the Audit Committee's proposal for appointing a Company for auditing the financial statements of NLB Banka AD Skopje for 2020;
- Proposal-decision for approval of the annual accounts of NLB Banka AD Skopje for 2019;
- Proposal-decision for the use and allocation of profits on the annual account on NLB Bank AD Skopje for 2019.
- Proposal-decision for allocation of dividend and determining the dividend calendar of NLB Banka AD Skopje for 2019
- Draft-Financial Report with Draft-Report of the audit company Ernst&Young certified auditors-DOO Skopje for audited financial statements of NLB Banka AD Skopje for 2019, prepared in accordance with local regulations and International Financial Reporting Standards for 2019, with opinion on the report by the audit company

During the reporting period, the members of the Supervisory Board, for each attendance at the sessions received appropriate compensation per session depending on the manner of holding the session, in

accordance with the Decision on determining the remuneration for the Supervisory Board members, adopted at the Shareholders Assembly held on 22.04.2010, amended at the Shareholders Assembly held on 23.07.2013. According to this decision, despite the determined compensation for session attendance, the members of the Supervisory Board employed in the NLB Group's members are not entitled to compensation, i.e. compensation is paid only to the independent members of the Supervisory Board.

The Supervisory Board had a successful year of operations, which is reflected in the success of the Bank's operations presented in the Bank's Annual Report for 2020.

#### **IV. Cooperation between the Supervisory Board and the Management Board**

During the course of 2020, the Supervisory Board and the Management Board continuously cooperated on certain issues during their operations, in particular on:

- Defining the Bank's business objectives
- Strategies for risk taking and management
- Risk profile of the Bank
- Policies for achieving business objectives and objectives with respect to the Bank's risk profile.

The Management Board regularly informed the Supervisory Board of any activities and changes in its operations that are significant to the Supervisory Board's competences:

- changes in risk management;
- changes in the Bank's solvency and liquidity position and its financial position;
- exceeding the exposure limits and non-compliance with regulations;
- weaknesses in the internal control system and in the manner of function of control functions;
- cases which may cause non observance or non-compliance with legal or regulatory requirements.

During 2020, the Supervisory Board along with the Management Board determined the acceptable level of risk, taking into account market competition, regulatory requirements, the Bank's long-term objectives, risk exposure and risk-taking capacity, which includes compliance of acceptable level of risk with business policy, financial plan, process of determining internal capital and remuneration system.

During 2020, the Supervisory Board together with the Management Board established and promoted the corporate culture and values of the Bank.

#### **V. Cooperation between the Supervisory Board and the Legally prescribed committees (Audit Committee and Risk Committee)**

During 2020, the Supervisory Board had continuous cooperation with both the Audit Committee and the Risk Committee, particularly in terms of:

- the Bank's operation, its products and services,
- assessment of the risks to which the Bank is exposed,
- determining risk management strategies
- internal control systems and risk management policies
- Accounting and Audit

The Risk Management Committee and the Audit Committee regularly report to the Supervisory Board regarding their operations, on a quarterly basis.

**VI. Conflict of interest and measures taken.**

During 2020 there was no reported conflict of interest by the members of the Supervisory Board for which measures should be taken in accordance with the Policy for Conflict of Interest of NLB Banka AD Skopje.

**VII. Results of individual and collective assessment of the suitability of the Supervisory Board's members**

According to the NBRNM's Decision on Rules for Good Corporate Governance, the annual assessment includes an individual and collective assessment of the adequacy of the Supervisory Board's members, as well as an assessment of their own performance by each member of the Supervisory Board.

Based on the realized adequacy assessment, a positive assessment of the suitability of the Supervisory Board's Members for 2020 was ascertained.



## **Annual Shareholders Assembly of NLB Banka AD Skopje**

### **Proposal-Decision for adoption of the Annual Report on the work of the Supervisory Board of NLB Banka in 2020 with included results of individual and collective assessment of the work of the members of the Supervisory Board for 2020**

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

### **Decision for adoption of the Annual Report on the work of the Supervisory Board of NLB Banka in 2020 with included results of individual and collective assessment of the work of the members of the Supervisory Board for 2020**

1. The Annual Report on the work of the Supervisory Board of NLB Bank in 2020, including the results of the individual and collective assessment of the work of the members of the Supervisory Board for 2020 is adopted, annex to this decision;
2. The decision comes 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