

Item on the agenda:7
Proposer: **Management board**

Material for the Annual Shareholders Assembly of NLB Banka AD Skopje

Annual report on the work of the Management Board of NLB Banka in 2020

The Management Board of NLB Banka proposes to the Assembly of Shareholders of NLB Banka AD Skopje to adopt the following:

Annual report on the work of the Management Board of NLB Banka in 2020

In addition:

- Annual report on the work of the Management Board of NLB Banka in 2020
- Proposal-Decision for adoption of the Annual Report on the work of the Management Board of NLB Bank in 2020.

Skopje, April 2021

Annual report for the work of the Management Board of NLB Banka AD Skopje for 2020

In accordance with the Law on Banks, the Statute of NLB Banka AD Skopje and the Bank's Corporate Governance Code, the Bank's Management Board represents the Bank and manages its operations.

In 2020, the Management Board consisted of four members, namely:

- Antonio Argir, President of the Management Board
- Günter Friedl, member of the Management Board
- Igor Davchevski, member of the Management Board
- Peter Zelen, member of the Management Board

The mandate of the members of the Management board is 4 years except if NBRNM decides otherwise with the Decision for issuing prior consent.

The mandates of the current composition of members of the Management Board are as follows:

- Antonio Argir, President of the Management Board = 4 years until 09.07.2023
- Günter Friedl, member of the Management Board = 4 years until 18.12.2022
- Igor Davchevski, member of the Management Board = 2 years until 01.01.2022
- Peter Zelen, member of the Management Board = 2 years until 02.01.2022

The members of the Management Board are equally responsible for the Bank's operations and for the obligations assumed by the Bank and equally represent the Bank and manage its operations.

The Management Board held sessions during the reporting period, which were generally held once a week. In addition to the regular sessions, the Management Board made decisions, via correspondence with written consent by all members of the Management Board.

During the reporting period, the Management Board held about 80 regular and extraordinary correspondent sessions.

In comparison to past years, the number of held sessions has significantly increased, keeping in mind the Covid-19 pandemic and the need for more frequent sessions of the members of the Management Board in order to make the necessary decisions for uninterrupted functioning of the Bank.

The activities of the Management Board during this period were directed to managing this novel situation and undertaking a set of measures in order to more successfully manage the pandemic caused by the spread of the Covid-19 virus, from the point of fast adjustment and establishing continuity of operational processes during conditions of a pandemic, as well as from the point of protecting employees against the Covid-19 virus.

During conditions of inability of physical presence and limited movement, the banks digital channels were intensely promoted – Skype for Business and Microsoft Teams. After the start of the pandemic in March, all sessions from the 3rd to the 12th month of 2020 were held via the digital channels Skype and Microsoft Teams.

Due to the Covid-19 pandemic, starting from March 2020, regular meetings of the Crisis Committee were held on a weekly basis, where all members of the Management Board were present, formed in order to regularly monitor the situation with Covid-19 and to undertake measures for protection of the employees and clients of the bank in a timely manner.

During the management of the Bank's operations, the Management Board performs the following work:

- Manages the Bank;
- Represents the Bank;
- Organizes the preparation of the proposals of general acts, decisions and other acts decided by the Bank's Assembly;
- Executes the decisions of the Assembly and the Bank's Supervisory Board, i.e. takes care of their implementation;
- Initiates initiatives and makes proposals for promotion of the Bank's operations;
- Appoints and dismisses the persons of the Bank with special rights and responsibilities, in accordance with this Statute and the provisions of the Law on Banks, determines their salary and concludes agreements with them;
- Prepares the Bank's business policy and development plan;
- Prepares the financial plan of the Bank;
- Prepares policy for the security of the Bank's information system;
- Prepares an annual report on the Bank's operations and submits it to the Supervisory Board;
- Prepares the Code of Ethics of the Bank;
- Approves the exposure to individuals up to 10% of the Bank's own funds;
- Approves transactions with related persons with the Bank in the amount of less than MKD 6.000.000;
- Approves the acquisition of equity parts and the 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 Macedonia;
- Decides on the establishing employment, on the reassignment and remuneration of employees in accordance with the legal regulations and general acts of the Bank;
- Decides on granting and taking loans for liquidity, guarantees, avals and letters of credit within the limits set by the law, the Bank's business policy act and the decision on credit policy made by the Supervisory Board;
- Establishes proposals for decisions and other acts to be decided by the Bank's Supervisory Board;
- Takes care of the informing the Bank's shareholders;
- Directs and organizes the work of the Bank's units especially in terms of timely and professional performance of operations;
- Adopts Rules of procedure of the Management Board and its amendments with prior approval of the Bank's Supervisory Board;
- Adopts individual acts of the Bank;
- Forms inventory committees for funds and sources of funds, committees for expenditure and disposal of fixed assets and small inventory, and if necessary, creates other committees and work bodies and appoints their members;
- Reviews and approves the annual inventory report;
- Performs other operations determined by Law, this Statute and other general acts of the Bank.

The Bank's Management Board is responsible for:

- Providing conditions for the Bank's operation in accordance with regulations;
- Managing and monitoring the risks to which the Bank is exposed during its operations;
- Achieving and maintaining an adequate level of own funds;
- Functioning of the internal control system in all areas of operation of the Bank;
- Uninterrupted work of the Bank's Internal Audit Division, i.e., ensures that the Internal Audit Division has access to the documentation and to the employees of the Bank for the purpose of uninterrupted conducting of its activities;
- Uninterrupted work of the Compliance and Information Security Department, i.e. ensures that the Department has access to the documentation and to the employees of the Bank for the purpose of uninterrupted exercise of the authorizations;

- Adopting and implementing policies for the manner of selection, monitoring the work and dismissal of persons with special rights and responsibilities, except for the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Management Board;
- Keeping the trade and other books and the business documentation of the Bank, preparing financial and other reports in accordance with accounting regulations and accounting standards;
- Timely and accurate financial reporting;
- Regularity and accuracy of reports submitted to the National Bank in accordance with the law and regulations adopted on the basis of law;
- Implementation of the measures imposed by the Governor to the Bank and legality of the Bank's operations.

In order to regularly inform regarding the Bank's operations, an agenda, minutes of the previous session, as well as materials from the Bank's Organizational Units are prepared for each session of the Management Board.

Prior to each session of the Management Board, the members of the Management Board attended and were part of the sessions of the Risk Management Committee, the Extended Liquidity Committee and the Credit Committee, while being able to regularly follow the complete operations of the Bank, directly to give directions, duties and tasks.

In addition, the members of the Bank's Management Board attended the sessions of the Supervisory Board and the Audit Committee.

In addition, the Management Board reviews, on a monthly basis, the reports of the Compliance and Information Security Department, namely from: the Segment for providing legality of operations, the Segment for Prevention of Money Laundering and Financing of Terrorism, and the Information Security Segment.

The Management Board informs the Supervisory Board at least once quarterly of its operations through the Information on Current Activities.

At its regular sessions, within its competencies, the Management Board assumes a large number of activities and adopts a large number of Rules, Instructions, Procedures, Plans and Decisions, including:

Compliance and Information Security Department

- Annual plan of the Compliance and Information Security Department for 2020
- Amendments and modification of the Rulebook for performing video surveillance in NLB Banka AD Skopje
- Procedures for implementation of the Law on Prevention of Money Laundering and Financing of Terrorism
- Rules of Procedure for the work group AML
- Amendments and modifications to the Standards for compliance of operations and enhancing the integrity in the NLB Group
- Rulebook for operations of the function for managing information security

Non-performing Loans and Intensive Care Division

- Amendments and modifications to the Methodology for restructuring of physical entities
- Amendments and modifications to the Methodology for restructuring of legal entities
- Amendment of the internal act – Rulebook for handling non-performing loans
- Amendment of the policy for Restructuring of physical entities
- Amendments and modifications to Standards for restructuring and managing non-performing loans

Risk Management Division

- Amendment to the Document Procedure for qualification of receivables according to risk level
- Amendments to the document Measures and procedures for approving loans
- Rulebook for implementation of measures over credit exposure of NLB Banka AD Skopje due to mitigating the consequences of the Covid-19 pandemic
- Amendment to the Classification procedure
- Amendments to the document Measures and procedures for approving loans within NLB Banka
- Amendments to the document - Methodology for determining the unit limits at the level of the central government and the central banks
- Amendments and modifications to the document – Methodology for WL in NLB Banka
- Methodology for working with Materially important clients and client communities with process table in NLB Banka AD Skopje
- Methodology for calculating of individual impairments and reservations for credit risk in NLB Banka AD Skopje
- Methodology for Model management
- Amendment to the Methodology for forming group impairments and reservations
- Methodology for assessing movable and immovable property
- Amendments to the Procedure for classification of receivables
- Recovery plan
- Amendment to the existing Methodology for credit rating
- Amendments to the Measures and procedures for approving loans within the Bank
- Amendments to the Methodology for calculating individual impairments and reservations
- Amendments to the Objective methodology for credit rating

Cash Services and Depot Division

- Instructions for Vault operations
- Amendments and modifications to the Instructions for vault operations

Financial Management Division

- Rulebook of NLB d.d. for the accounting of the Group
- Amendments to the rules of listing of MSE

Internal Audit Division

- Plan for operations of the Internal Audit for 2020 and the period of 2020-2024
- Amendments to the Plan for operations of the Internal Audit for 2020

Information Technology Division

- Rulebook for network security

Legal Division and Secretariat

- Amendments and modification to the Rules of Procedure for the MB
- Amendments to the procedure for write-off of claims
- Procedure for the sale of claims in NLB Banka AD Skopje

Data Management Officer

- Methodology for report management

Offer Development and Marketing Division

- Strategy for digital transformation of NLB Banka

The Management Board regularly reviewed the regular reports of certain organizational units in the Bank (monthly, quarterly). At the sessions, the Management Board examined the reports submitted by the

Information System Security Officer, in relation to the security incidents of the information system and adopted conclusions and measures in relation to them. During the reporting period, the regular monthly reports from the Compliance and Information Security Department (segment ensuring legality of operations, segment money laundering and terrorist financing prevention, segment ensuring information system security) were also reviewed by the Management Board.

The Management Board also reviewed the audit reports on the audits carried out and the recommendations made by the Internal Audit Division before being submitted to the Supervisory Board for adoption.

The Management Board, daily, as well at its regular sessions, decided within the limits of its competencies, in all segments of the Bank's operations, and adopted:

- Decisions on commencing enforced collection,
- Decisions on changing the Bank's interest rates,
- Decisions on changing the tariffs for services provided by the Bank, etc.

Services

Branch Network division and loan products

Keeping in mind the overall situation in 2020, we can say that the majority of the NLB Banka activities, including the Branch Network Division were directed to dealing with the novel situation and the set of measures made in order to more successfully handle the pandemic caused by the spread of the Covid-19 virus. Due to these reasons, the Branch Network Division undertook the following activities:

- Activities regarding delaying the obligation for payment of due liabilities in accordance to government guidelines.
- Activities regarding the realization of the project State Payment Card through which state aid to clients with low income was paid.
- Activities regarding organization of the operations of Branch offices during a pandemic.
- Adjusting the operations of the Contact center to the new work conditions caused by the pandemic.
- Activities regarding the second delay of payment of due liabilities.

Despite all of this, the Branch Network Division did not neglect the basic activity, the commercial aspect i.e. the sale of loan products. In that direction, activities have been undertaken as follows:

- Retaining and increasing the scope of the credit portfolio.
- Promoting a campaign in honor of 35 years NLB Banka by promoting loan products with a repayment period of 35 years.
- Pre-approved limits for mitigation of branch offices loans.
- Activities for updating client data for Physical entities with which data for over 100.000 clients was updated through the branch offices.
- 20.000 new transaction accounts were opened, 13.000 new pensioners and 10.000 recipients of social aid due to the close of Eurostandard banka.

These are only some of the more significant activities which marked the period of 2020, and despite the state of emergency all activities of the branch offices were done without interruption and with high quality.

Sales channels and digital transformation of NLB Banka

The Covid crisis imposed the need and the possibility for conducting activities for increased digitalization. During conditions of inability of physical presence and limited movement, the Bank's digital channels were intensively promoted, as well as the benefits and reliefs offered. A series of promotional activities were promoted, tutorials for use of the digital channels were created, education work instructions, as well as adapting of the product offer. This contributes to increased digitalization and an increase of the number of active digital users for 30.700 clients, physical and legal entities, as well as an increase of the

participation of electronic orders with total order for over 100% with physical entities and over 2% for orders of legal entities. Also, during the year a series of new digital functionalities were implemented: Pay a friend and Split a bill, a functionality which can transfer user bills by simply selecting a person from your telephone contacts, mKlik loans the only on-line loan on the market with full digital and automated application and loan payment process, option to update the personal data of clients was offer via a solution in the mKlik application.

Within the adopted legal framework during the Covid crisis, the option for expanded use of the Bank's website was utilized, as a channel through which a series of activities were performed: updating the client data, collecting necessary client data for DPK and signing of agreements, sharing information for compensation of the persons with savings accounts in Eurostandard banka.

Also, the ATM network was used to collect various contents, updating telephone numbers of clients as well as the sale of card products and increasing the limit of credit cards of a select basis of clients with quality credit history in the Bank determined based on previously determined criteria.

Information technology

In 2020, the Information Technology Division, in addition to the activities and projects for securing work conditions during a Covid-19 pandemic, fulfilled the other strategic goals directed towards development and upgrading of information systems in the direction of support of banking operations, digitalization of banking services, automatization and optimization of banking processes and compliance within the NLB Group. All of this was supported via continued improvement of the IT infrastructure (network, system and server) and providing security of the systems.

The most significant areas of work in 2020 were as follows:

1. Providing effective continuity of the bank's operations during a state of emergency due to Covid-19
 - We provided work from home via VPN access of over 450 employees via implementation of remote work access
 - Increasing the capacities of the Contact Center and procurement and installation of additional computer equipment
 - Implementation of new software solutions and appropriate IT infrastructure for support of the government measures made in relation to the pandemic.
 - Continued development of software solutions in the function of digitalization and optimization of banking processes.
2. Digital Bank transformation and integration with the NLB Group initiative
 - Development of the systems in function of improving the digital experience of clients and implementation of new digital channels.
 - Active participation in the group's initiatives development of unified loan processes.
3. Providing a high level of IT and cyber security
 - Increase of the performances and stability of the system by mitigation of new versions of the operational systems and data bases;
 - Managing with IT and Cyber security risks, via modernizing of the security of the systems and a proactive protection of resources;
 - Improvement of the Vulnerability and patch management system;
 - Increase of the protection against attacks in the digital space via implementation of modern monitoring and authorization and authentication systems;
4. Providing IT continuity via stable PKR:
 - Increasing the capacity of the disk systems at the primary and secondary location and their performances;
 - Upgrading the server, virtual and network infrastructure;

- Stabilization of the basic banking system by implementing automatization and optimization solutions and on-line archiving.
5. Improvement of the security of IT services in the area of data management:
- Hiring outsourcing services for development of new projects for DWH/BI Tools
 - Optimization of the reporting model by centralizing it
 - Realization of Data Management strategy by mitigating sets of reports from the basic banking system in data warehouses (DWH), automatization of new decisions for generating reports over DWH, using tools for visual presentation of data.
6. Modification of the IT support concept
Preparation of a new concept for outsourcing of Layer 1 support for the basic banking system by implementation of the concept Core Software Supplier.

Human resources management

As a bank which has always been very dedicated to people, NLB Banka continuously invests in its employees through a caring treatment and dedication to creating a work environment which melds together their know-how and ingenuity with the future needs of clients and the community by forming modern and challenging work positions for successful careers, encouraging the personal growth of each individual at the same time.

In 2020 one of the main focuses, in the aspect of care for employees, was providing a high level of protection against the Covid-19 virus, following every recommendation by the Government, providing conditions for extraordinary operations, continued education for following the measures for prevention of the spread of the virus, as well as increasing the awareness of health habits and health care.

Despite the difficult work conditions, the Human Resources Management Center continues with smooth progress of all processes. One of the main strategic initiatives is the implementation of the strategy for talent management, where the process for reviewing the talent group was completed by assessing the performances and potential of the employees.

Keeping in mind the talent management, as assessment of work positions was conducted in 2020 via an in-depth analysis using the international tool "Grader" in order to add value to the positions of high specialist and experts, reviewing the underestimated positions and standardization of the salary ranks. Also, in this way the adjustment to the market conditions, maintaining the brand of an excellent employer in the financial sector and maintaining the key employee is being influenced.

At the level of the Group, in December 2020 a process for measuring the organizational culture in the bank was implemented, where 250 employees were included. During the year, we actively worked on improving the constructive styles of corporate culture by improving the vertical and horizontal communication, setting mutual inter-division, as well as team goals within the organizational units, giving challenging tasks to employees, providing a space for open communication of ideas, continued encouragement of employees to think independently, to give support and to resolve conflicts in a constructive manner, as well as investments in the professional and personal growth of employees, where 140 training took place, i.e. a total of 14.417 hours, which in average is 16.4 hours of training for each employee of the Bank.

Within education of employees, in order to follow global trends, a project for raising awareness of the digital transformation called "Digital Fitness Game" was conducted, where employees improved their knowledge by using a mobile application, and the most successful employees were appropriately rewarded.

Also, in order to increase employee loyalty, the project "NLB summer experience-working with Nela" was implemented, for work engagement of the children of employees at the age of 15 to 22. This project

enabled pupils and students to have a career orientation and opportunity by getting to know the banking profession and banking processes.

Keeping in mind the influence of the engagement of employees over the organizational behavior and corporate culture, in 2020 we conducted a research i.e., measuring of employee engagement. Based on the results, a detailed analysis was conducted and in January 2021 a workshop took place with the Management Board and B-1 to define the activities for maintaining and upgrading engagement.

The Bank, as a company which continuously shows active awareness of the value of human capital, follows the standards in people management and will continue to encourage employees to achieve and apply their potential and to jointly build the vision of long-term well-being in the future as well.

Strategy and outlook

In the future, the Bank will continue to implement and promote good corporate governance, work organization and business processes. As part of the NLB Group, the Bank continually harmonizes its work with the Group and will jointly continue to be present on the market with the other members. The business network as a traditional sales channel will be expanded and upgraded, with the simultaneous development of electronic sales channels and the promotion of the use of electronic services. The focus of the Bank will be on maintaining or increasing the market share in different segments in the banking sector of the Republic of Macedonia, depending on the risk assumed, the impact on capital adequacy and profitability. As before, intensive work will be done to develop the knowledge and skills of human resources as a main pillar of good work, as well as to develop the Bank's IT system.

In 2020, the Management Board generally directed its work towards profitable operations of the Bank, while keeping the Bank's position in the banking sector in the Republic of North Macedonia, through planning of new products and services as well as development of existing ones through its Business Departments through alignment of the interest rates with the general market trends, special activities in the area of non-performing loans collection, project activities for increasing cost efficiency and reduction of operating expenses, reduction of non-performing loans, promotion of card operations and electronic banking, at the same time taking care of the legality of the Bank's operations, by complying its acts with the Law on Banks and the amendments to the laws and by-laws.

Skopje, April 2021

Annual Shareholders Assembly of NLB Banka AD Skopje

Proposal-Decision for adoption of Annual report on the work of the Management Board of NLB Banka AD Skopje in 2020

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

Decision on the adoption of Annual report on the work of the Management Board of NLB Banka AD Skopje in 2020

1. The Annual report on the work of the Management Board of NLB Bank AD Skopje in 2020 is adopted, annex to this decision;
2. The decision comes into force on the day of adoption.

In Skopje, 29.04.2021

The decision shall be submitted to:
Secretariat

Chairman
of the Annual Shareholders Assembly
of NLB Banka AD Skopje