



**Presentation of remuneration of members of management boards of NLB d.d., NLB Banka AD Skopje, NLB Banka a.d. Banja Luka and NLB Banka sh.a., Priština, and related provisions of remuneration policies of the stated companies for the General Meeting of Shareholders of NLB d.d.**

I. INTRODUCTION

This document comprises a presentation of remuneration of members of management boards of Nova Ljubljanska banka d.d., Ljubljana and its three largest subsidiaries (measured by revenue of each subsidiary) - NLB Banka AD Skopje, NLB Banka a.d. Banja Luka and NLB Banka sh.a., Priština, and related provisions of remuneration policies of the stated companies.

II. PRESENTATION OF REMUNERATION OF MEMBERS OF MANAGEMENT BOARDS FOR BUSINESS YEAR 2019

1. Remuneration of members of the Management Board of NLB d.d.

The average gross monthly salary in NLB d.d. for business year 2019 amounted to EUR 2,519.04.

Already at the very beginning of the coronavirus epidemic, the Management Board of NLB d.d. proactively decided that any decision-making regarding the variable part of remuneration within the NLB Group would be postponed until November 2020 and the Supervisory Board of NLB d.d. agreed. Then, a Decision by the Bank of Slovenia (hereinafter: BoS) was published in the Official Gazette of the Republic of Slovenia No 49 on 10/4/2020 about the macroprudential restriction on profit distribution in banks (hereinafter: BoS Decision), which (among other) temporarily prohibits the payment of variable remuneration or the establishment of the obligation to pay variable remuneration or discretionary pension benefits to employees whose professional activities have a significant impact on the risk profile of the bank (defined employees) from the Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing the Directive 2013/36/EU of the European Parliament and of the Council as regards regulatory technical standards relating to the qualitative and appropriate quantitative criteria to identify the categories of employees whose professional activities have a significant impact on the risk profile of the institutions. The stated macroprudential measure will be in place for one year since the publication in the Official Gazette of the Republic of Slovenia; however, the BoS may withdraw the measure early in the event of a significant reduction of risks (or extend its validity should the risks increase). Therefore, the Supervisory Board of NLB d.d. has not yet adopted a decision regarding a possible allocation of variable remuneration to members of the Management Board of NLB d.d. for business year 2019, which is why the gross amount of any possible granted rights of members of the Management Board of NLB d.d. to the variable remuneration for business year 2019 is not known yet.

Other rights from employment agreements of members of the Management Board of NLB d.d for business year 2019 are:

- rights described in Attachment 1;
- at the request of a member of the Management Board, NLB d.d. shall provide a driver of the company car when the company car is used for business purposes;
- NLB d.d. shall cover or reimburse the costs payable in connection with the training of a member of the Management Board in connection with employment; these activities are determined at the annual performance appraisal interview with the member of the Management Board;



- NLB d.d. shall cover or reimburse membership fees and costs payable in connection with memberships of a member of the Management Board in professional associations where he acts as chairman or member, and in connection with the purchase of literature and periodicals, which are determined from time to time by the member of the Management Board and are in connection with employment;
- if recommended by a medical specialist, NLB d.d. shall ensure, at its own expense, that a member of the Management Board has a possibility of a thermal cure and rehabilitation;
- at its own expense, NLB d.d. shall provide accident insurance for a member of the Management Board for ordinary insurance cases, where the monthly insurance premium for insuring a member of the Management Board is not higher than EUR 75;
- at its own expense, NLB d.d. shall pay or reimburse a member of the Management Board the premiums for supplementary health insurance which provides the maximum coverage of the cost of medical services (including premium services and medical services abroad);
- NLB d.d. shall provide liability insurance for a member of the Management Board due to his misconduct as member of the Management Board;
- in the event of a termination of the term of office of a member of the Management Board due to recall from other business and economic reasons, NLB d.d. shall pay to a member of the Management Board a compensation in the amount of his gross salary payable with regard to the month prior to the termination, multiplied by 12, as compensation for an early termination of his term of office; a member of the Management Board shall not be entitled to the payment of a compensation for an early termination of the term of office if he is employed in NLB d.d. or the NLB Group again after the termination of his term of office;
- foreign members of the Management Board of NLB d.d. also have several of the below rights agreed in their employment agreements:
  - o NLB d.d. shall reimburse a member of the Management Board travel expenses in the scope of a maximum of 24 economy class return airplane tickets per year for family visits;
  - o at its own expense, NLB d.d. shall provide for a member of the Management Board suitable accommodation in Ljubljana (permanent hotel room or apartment), including relevant costs;
  - o NLB d.d. shall pay to a member of the Management Board a monthly separation allowance if he works and resides outside the place where his family resides.

## 2. Remuneration of members of the Management Board of NLB Banka AD Skopje

The average gross monthly salary in NLB Banka AD Skopje for business year 2019 amounted to EUR 1,241.50.

The Supervisory Board of NLB Banka AD Skopje has also not yet decided about the allocation of variable remuneration to members of the Management Board of NLB Banka AD Skopje for business year 2019.

Other rights from employment agreements of members of the Management Board of NLB Banka AD Skopje for business year 2019 are shown in Attachment 2.

## 3. Remuneration of members of the Management Board of NLB Banka a.d. Banja Luka

The average gross monthly salary in NLB Banka a.d. Banja Luka for business year 2019 amounted to EUR 1,153.00.

The Supervisory Board of NLB Banka a.d. Banja Luka has also not yet decided about the allocation of variable remuneration to members of the Management Board of NLB Banka a.d. Banja Luka for business year 2019.



Other rights from employment agreements of members of the Management Board of NLB Banka a.d. Banja Luka for business year 2019 are shown in Attachment 3.

#### 4. Remuneration of members of the Management Board of NLB Banka sh.a., Priština

The average gross monthly salary in NLB Banka sh.a., Priština for business year 2019 amounted to EUR 1,041.84.

The Supervisory Board of NLB Banka sh.a., Priština has also not yet decided about the allocation of variable remuneration to members of the Management Board of NLB Banka sh.a., Priština for business year 2019.

Other rights from employment agreements of members of the Management Board of NLB Banka sh.a., Priština for business year 2019 are shown in Attachment 4.

### III. PRESENTATION OF FIXED REMUNERATION ARRANGEMENT AND PROVISIONS OF REMUNERATION POLICIES IN RELATION TO VARIABLE REMUNERATION OF MEMBERS OF MANAGEMENT BOARDS

#### 1. Fixed remuneration of members of the Management Board of NLB d.d.

Fixed remuneration (salary) of each member of the Management Board of NLB d.d. is set in his employment agreement and is shown in Attachment 1.

Fixed remuneration of each member of the Management Board of NLB d.d. was set by the Supervisory Board of NLB d.d. on the basis of a benchmark analysis for the relevant position/function in the Management Board of NLB d.d. and according to the market, after negotiations and in agreement with each member of the Management Board of NLB d.d.

#### 2. Fixed remuneration of members of the Management Board of NLB Banka AD Skopje

Fixed remuneration (salary) of each member of the Management Board of NLB Banka AD Skopje is set in his employment agreement and is shown in Attachment 2.

#### 3. Fixed remuneration of members of the Management Board of NLB Banka a.d. Banja Luka

Fixed remuneration (salary) of each member of the Management Board of NLB Banka a.d. Banja Luka is set in his employment agreement and is shown in Attachment 3.

#### 4. Fixed remuneration of members of the Management Board of NLB Banka sh.a., Priština

Fixed remuneration (salary) of each member of the Management Board of NLB Banka sh.a., Priština is set in his employment agreement and is shown in Attachment 4.

#### 5. Remuneration policy of NLB d.d.

Variable remuneration of members of the Management Board of NLB d.d. is regulated by the Remuneration Policy for Employees Performing Special Work (version 8, hereinafter: Remuneration Policy of NLB d.d.), which was adopted by the Supervisory Board of NLB d.d. on 29/11/2019 in accordance with the Banking Act (Official Gazette of the RS No 25/15 with amendments and modifications, hereinafter: ZBan-2).

In relation to variable remuneration of members of the Management Board of NLB d.d., the Remuneration Policy of NLB d.d., taking into account relevant regulation, sets out the following essential elements:

##### a) Criteria for establishing performance of members of the Management Board of NLB d.d.



The following targets in the following ratio are generally applied to establish performance of an individual member of the Management Board of NLB d.d.:

- financial targets of the NLB Group 50%;
- financial targets in the segments an individual member of the Management Board of NLB d.d. is competent for 30%;
- personal targets of the member of the Management Board of NLB d.d. 20%.

Targets of an individual member of the Management Board of NLB d.d. for an individual business year and performance criteria for members of the Management Board of NLB d.d. shall be defined by the Supervisory Board of NLB d.d. Targets referred to in the previous sentence shall be financial and non-financial.

The maximum possible amount of the variable part of the salary of a member of the Management Board of NLB d.d. for an individual business year amounts to 8 salaries (according to the Banking Act variable remuneration for an individual is limited to 100% of his fixed remuneration).

On the basis of and in addition to the criteria from the Remuneration Policy of NLB d.d. the Supervisory Board of NLB d.d. shall define joint and individual criteria for defining variable remuneration for members of the Management Board of NLB d.d. Financial targets and quality criteria for development of the company's social responsibility are the same for all the members of the Management Board of NLB d.d.

Concrete allocation of variable remuneration to an individual member of the Management Board of NLB d.d. for an individual business year is based on detailed examination of his achievement of the targets set for an individual business year and all other relevant circumstances by the Supervisory Board of NLB d.d.

b) Method and deferral of disbursement, malus and clawback

In accordance with the Banking Act, Orientation of the Bank of Slovenia regarding the principle of proportionality in application of remuneration policies of 22 November 2016 and the Remuneration Policy of NLB d.d., the following general rules apply for allocation and disbursement of variable remuneration to members of the Management Board of NLB d.d.:

Award and disbursement of variable remuneration (also deferred part) to a member of the Management Board depend on adjustment criteria resulting from the risk management through performance monitoring system based on KPI & KRI targets at the level of NLB Group and NLB d.d. Criteria are based on e.g. compliance with adopted policies, methodologies, orientations, requirements of regulators, auditors, and authorisations referring to the work of the Management Board member. Award of variable remuneration is set forth in detail in Article 19, disbursement in Article 20, and subsequent risk adjustment in Article 21 of the Remuneration Policy of NLB d.d.

Member of the Management Board of NLB d.d. shall not be entitled to variable part of the salary for a particular business year, if he has not achieved his personal targets for this business year, regardless of whether the targets of NLB d.d. or NLB Group for this business year have been achieved.

When assessing performance of members of the Management Board of NLB d.d. the Supervisory Board of NLB d.d. shall also take into account the situation on the local, regional, as well as the global banking market during the year and shall assess achievement of targets of members of the Management Board of NLB d.d. taking into account their activities to pursue the best interest of NLB d.d.

Variable remuneration shall not be allocated or disbursed if this would put at risk solidity of the capital base of NLB d.d. Should it discover that allocation and/or disbursement of variable remuneration



would put at risk solidity of the capital base of NLB d.d., NLB d.d. shall implement the following measures in the required scope:

- reduce the budget of variable remuneration for the past business year, possibly to zero, and apply the reduction accordingly in allocation of variable remuneration for the past business year;
- apply the necessary measures for adaptation of performance, especially maluses for reduction of the already allocated but not yet disbursed deferred variable remuneration;
- reduce the already disbursed remuneration by applying agreements on refund of the variable remuneration;
- apply the net profit of the institution for the past business year and if possible for the current and next business years to strengthen the capital base of NLB d.d.

The decision on whether all the conditions for disbursement of the variable pay for members of the Management Board of NLB d.d. have been met, shall be adopted by the Supervisory Board of NLB d.d.

Variable remuneration of a Management Board member for an individual business year shall be allocated and paid out in cash, provided it does not exceed EUR 50,000 gross.

If variable remuneration of a Management Board member for an individual year exceeds EUR 50,000 gross, at least 50% of it shall consist of NLB d.d. shares, and a Management Board member may only transfer these shares with consent of NLB d.d., which may only be issued after at least two years have passed since acquisition (this applies for non-deferred, as well as the deferred part of variable remuneration).

At least 40% of variable remuneration of a Management Board member, allocated for an individual business year (or at least 60%, if extremely high) shall be deferred for a period of at least 3 and not more than 5 years since the day the non-deferred part of this variable remuneration has been disbursed.

Supervisory Board of NLB d.d. shall, before the deferred part of variable remuneration of a Management Board member has been disbursed, reassess performance and assumed risks and, if necessary, adjust the deferred part of variable remuneration taking into account the adjustment criteria based on KPI & KRI targets and the criteria set forth in the table under Article 21 of the Remuneration Policy of NLB d.d.

If the circumstances of the case are not clear enough to enable taking a decision on whether or not the deferred part of the variable remuneration should be disbursed or not, or in what amount it should be disbursed, the Supervisory Board of NLB d.d. may decide that the deferred part of the variable remuneration shall not fall due upon its original due date and that a decision on whether the deferred part of remuneration should be disbursed or not or in what amount it should be disbursed and when, shall be postponed until the circumstances become clear.

For 3 years after disbursement of the variable remuneration, NLB d.d. may demand a refund of this part of variable remuneration in part or in full, if after its disbursement it has been established that the Management Board member has considerably contributed to poor or negative financial performance of NLB d.d., or that he has caused considerable losses to NLB d.d. by fraud or any other deliberate act or an act of gross negligence, or that a circumstance from points 7, 12, 15 or 16 from the table under Article 21 of the Remuneration Policy of NLB d.d. has occurred or been disclosed.

- c) Quality criteria for the development of corporate social responsibility in NLB d.d.

**[Annual Report on Corporate Social Responsibility of the NLB Group for 2019](#)**



The NLB Group has an important socially responsible mission, which is demonstrated by its responsible attitude towards all its stakeholders: its employees, customers, owners and suppliers. In accordance with the **Policy of Social and Environmental Responsibility of the NLB Group**, which was adopted at the end of 2018, the implementation of CSR projects and harmonization of the process of monitoring and deciding on sponsorships and donations continued last year. In 2019, the NLB Group successfully completed 352 projects in different areas of corporate social responsibility.

**The Statement on Non-Financial Operations of the NLB Group for 2019** – a report in accordance with the Companies Act (ZGD-1J) – forms part of the Annual Report on Corporate Social Responsibility of the NLB Group for 2019. This report contains information on environmental, social and HR matters, information on the respect for human rights, and information related to the fight against corruption and bribery. In relation to the latter areas, key non-financial performance indicators are reported in the aforementioned document. The **NLB Group GRI Standards Report for 2019 (and its achieved values)** also forms part of the Annual Report on Corporate Social Responsibility of the NLB Group for 2019.

The NLB Group has started an accelerated integration of the ESG (environmental, social and governance) factors into the NLB d.d.'s business model this year, as a result of both the requirements of the EBRD as a partial owner of NLB d.d. and more and more specific initiatives by the supervisors of the banking system and the regulators. It is expected that within one year, NLB d.d. will be ready for an assessment by the ESG credit rating agencies and then a system of the ESG KPIs and its owners will be set up in NLB d.d.

- d) Other types of potential rewards

Remuneration Policy of NLB d.d. or employment agreements of members of the Management Board of NLB d.d. do not envisage any other types of rewards.

- e) Definition of the maximum amount and terms for disbursement of severance pay

Types, amount and terms for disbursement of severance pay are set forth in section II.1. above and Attachment 1.

- f) Other rights and benefits

Other rights and benefits are set forth in section II.1. above and Attachment 1.

- g) Regulation of remuneration for members of the Management Board performing the function of a Supervisory Board member or other tasks in a subsidiary

Members of the Management Board of NLB d.d. do not get paid for performing the function of members in the Supervisory Board or other tasks in subsidiaries.

- h) Clarification how it is ensured that total remuneration is adequately proportionate with the tasks of members of the Management Board of NLB d.d., financial situation of NLB d.d., that long-term business sustainability of NLB d.d. is promoted and that remuneration is proportionate with the results achieved

The Supervisory Board shall ensure adequacy of fixed remuneration of members of the Management Board of NLB d.d. by defining the fixed remuneration for every individual member of the Management Board of NLB d.d. based on the benchmark analysis for the relevant position or function in the Management Board of NLB d.d. and according to the market, after negotiations and in agreement with a particular member of the Management Board of NLB d.d.



Supervisory Board of NLB d.d. ensures adequacy of variable remuneration of members of the Management Board of NLB d.d. by defining their maximum in the employment agreement of an individual member of the Management Board of NLB d.d. and in the Remuneration Policy of NLB d.d., and complying with all the relevant regulations (including the Companies Act and Banking Act (ZBan-2)) and the relevant EU regulations and Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 (EBA/GL/2015/22). As explained above, the Remuneration Policy of NLB d.d. envisages the possibility of not allocating or not disbursing the variable remuneration if this would put at risk solidity of the capital base of NLB d.d., as well as reducing the variable remuneration before it is allocated and reducing the deferred variable remuneration before it is disbursed, and the possibility of applying malus or clawback.

6. Remuneration Policies of NLB Banka AD Skopje, NLB Banka a.d. Banja Luka and NLB Banka sh.a., Priština

The Remuneration Policies adopted in connection with variable remuneration of members of their Management Boards and other employees performing special work by NLB Banka AD Skopje, NLB Banka a.d. Banja Luka and NLB Banka sh.a., Priština, are in terms of their contents similar to the Remuneration Policy of NLB d.d.

[Attachment 1](#)

[Attachment 2](#)

[Attachment 3](#)

[Attachment 4](#)