

# Report of the Supervisory Board of NLB d.d. on the results of examining the NLB Group Annual Report 2020

Pursuant to the provisions of the Companies Act (ZGD-1) and the relevant Corporate Governance Code for Listed Companies<sup>1</sup>, the Supervisory Board of NLB d.d. (NLB d.d. further in text: **NLB** or **the Bank**) compiled the written report for the General Meeting of Shareholders of NLB.

## 1.) Report of the Supervisory Board of NLB on the results of examining the NLB Group Annual Report 2020 and the proposal for the allocation of distributable profit

Pursuant to the provisions of Article 282 of the Companies Act and Article 34 of the Articles of Association of Nova Ljubljanska banka d.d., Ljubljana (further in text: **Articles of Association of NLB**), it is the obligation of the Supervisory Board to examine the Annual Report and the proposal for the allocation of distributable profit presented by the Management Board. The Supervisory Board has to compile a written report for the General Meeting of shareholders on the findings of the examination referred to in the previous sentence.

On 8 April 2021, the Supervisory Board of NLB discussed the NLB Group Annual Report 2020 and the attached auditor's report prepared by Ernst & Young, Revizija, poslovno svetovanje d.o.o., Ljubljana (further in text: **Ernst & Young**). The Supervisory Board of NLB examined the compiled NLB Group Annual Report 2020. After a careful examination, the Supervisory Board of NLB had no comments to the report and therefore approved it, which means that the report is adopted.

The NLB Group audited financial results show that 2020 was, despite the challenges of the COVID-19 pandemic and the resulting economic hibernation, a very solid year with core revenues from lending, and the fees and commission business quickly returned to pre-COVID-19 levels. The Group's results demonstrated the robustness and resilience of its sustainable business model, including sound underwriting criteria across economic cycles. Total net operating income of the NLB Group amounted to EUR 504.5 million, representing a moderate 2% decrease YoY (2019: EUR 517.2 million).

Profit before impairments and provisions amounted to EUR 210.5 million, a mere 1% decrease YoY, supported by non-recurring income (the sale of NLB Vita and debt securities). Profit after tax amounted to EUR 269.7 million, strongly affected by the acquisition of Komercijalna banka a.d. Beograd (further in text: **Komercijalna banka**) that had a net positive impact of negative goodwill in the amount of EUR 137.9 million, and additionally established EUR 13.4 million for expected credit losses on the performing portfolio for the Komercijalna banka Group. Excluding the impact of the acquisition, NLB Group profit would amount to EUR 141.3 million, significantly exceeding previous forecasts mostly because of better than expected cost-of-risk performance.

In total, NLB Group established impairments and provisions in the amount of EUR 71.4 million, mostly related to the COVID-19 outbreak. The cost-of-risk related to credit risk stood at 74 basis points (NLB Group pre-acquisition 62 basis points) – and was lower than guidance, mainly due to very solid asset quality trends in Slovenia and continuously successful NPL workout from legacy NPL stock. The Group applied very strict discipline to cost mitigation activities, driving costs down by 4% YoY, totalling EUR 293.9 million and leading to a cost-to-income ratio of 58.3%.

Capital adequacy stands at 16.6%, with EUR 92.2 million from 2020 profits already anticipated for dividend distribution, while excess capital above the regulatory requirement provides a robust basis for continued growth. Also important was the negative goodwill recognised in profits that is still subject to validation by the regulator prior to inclusion into the capital base.

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<sup>1</sup> The applicable corporate governance code: Corporate Governance Code for Listed Companies (October 2016).

The acquisition of Komercijalna banka at the end of December 2020 added EUR 4.3 billion to the NLB Group's balance sheet, bringing NLB Group's total assets to nearly EUR 20 billion (EUR 19.6 billion). The conclusion of this process marked another very important milestone in the NLB Groups' strategy to become the leading financial institution focused on and headquartered in our home region – South-eastern Europe.

New circumstances regarding the COVID-19 pandemic and economic hibernation have not affected NLB's long-term goal as a market leading regional specialist. The Supervisory Board of NLB is satisfied to conclude that the NLB Group business results are stable and – despite impairments and provisions – rather robust and profitable.

Our dedication to our clients and our home region as such remains unchanged. The push on acceleration of digitalisation of the business model and thereby improving client experience. The period of restrictive measures acted as a sort of an accelerator to transfer clients and overall communication to digital channels and safer contactless transactions. The bank further sped up the processes and extended its set of services available for clients via digital channels.

The changes in the economic environment have also not affected NLB Group's ambition to strengthen its position in the South-Eastern Europe and to become a systemic player on all the markets where we operate, especially in the Serbian market, which – besides its natural strategic value for NLB Group – also seems to have higher resilience to the pandemic given the structure of its economy. The Supervisory Board of NLB was extremely satisfied with the successful completion of Komercijalna Banka at the end of December 2020 and is aware that hard work continues with activities that enable full integration of the newest member into the NLB Group.

The Supervisory Board of NLB performed its work in line with the powers vested in it and the Rules of Procedure of the Supervisory Board of NLB (September 2019). Its function of providing efficient supervision over the management of the bank and the NLB Group and its duty to act with diligence and prudence was performed in accordance with its powers stipulated by the applicable laws (the Companies Act and the Banking Act) and other provisions and in the internal documents of the bank (the Articles of Association of NLB).

The Supervisory Board of NLB monitors and supervises the management and operations of the bank. Throughout the year, the Supervisory Board of NLB maintained a balanced professional relationship with the Management Board of NLB and received timely, comprehensive and data-supported information from the Management Board of NLB which allowed it to adopt decisions in accordance with the Bank's business interests, banking regulations and statutory powers. The Management Board of NLB regularly and completely informed the Supervisory Board of NLB of all issues related to the strategy, planning, development and risk management important for the Bank. The co-operation between the Chairman of the Supervisory Board of NLB and the President of the Management Board of NLB is continuous and going on also outside the formal meetings, if required. Similarly, the other chairs of the committees cooperate with the relevant members of the Management Board of NLB outside the formal meetings. The Supervisory Board of NLB assessed that in the business year 2020 the Management Board of NLB worked professionally, successfully, and efficiently.

In 2018, the General Meeting of NLB appointed the company Ernst & Young as external auditor for the auditing of the annual financial statements for a five-year period, namely for business years from 2018 to 2022. The co-operation with the external auditor took the form of external auditor's representatives regularly reporting to the Audit Committee of the Supervisory Board of NLB, both on the progress and findings of the audit and on the implementation of external auditor's recommendations.

The auditor's report of the auditing company Ernst & Young was also attached with the NLB Group Annual Report 2020. The Management Board of NLB submitted to the Supervisory Board of NLB the NLB Group Annual Report 2020, which includes the business report with audited financial statements of NLB, the consolidated financial statements of the NLB Group and the auditor's opinion. According to the auditor's opinion, in all material respects, the individual and the consolidated financial statements enclosed give a true and fair view of the financial position of NLB and the NLB Group as at 31 December 2020, individual and consolidated income statement, and individual and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union. It was also established based on the review of the business report

that the information contained in the business section of the Annual Report is consistent with the audited financial statements of the bank and the NLB Group. The Supervisory Board of NLB acknowledged the report of the auditing company Ernst & Young to the NLB Group Annual Report 2020 and had no comments to it.

Pursuant to the provisions of the first paragraph of Article 282 of the Companies Act, the Supervisory Board of NLB also checked the proposal of the Management Board of NLB for the allocation of distributable profit of NLB for the business year 2020 and approved it.

The distributable profit of NLB as at 31 December 2020 amounts to EUR 341,992,219.43 and consists of NLB net profit for 2020 in the amount of EUR 113,952,339.70 and retained earnings from previous years in the amount of EUR 228,039,879.73.

The distributable profit in the amount of EUR 341,992,219.43 shall be allocated as follows:

1. Part 1 in the total amount of EUR 24,800,000.00 shall be paid to the Shareholders as dividends in two instalments, i.e.:

1.1. The first instalment in the total amount of EUR 12,000,000.00, which is EUR 0.60 per share, shall be paid on 22 June 2021 to the persons who are registered as the Shareholders of NLB with the Central Securities Clearing Corporation on the day that is 5 working days after the day of the General Meeting that adopted this resolution (21 June 2021, Cut-Off Day 1);

1.2 The second instalment in the total amount of EUR 12,800,000.00, which is EUR 0.64 per share, shall be paid on 18 October 2021 to the persons who are registered as Shareholders of NLB with the Central Securities Clearing Corporation on the day 15 October 2021 (Cut-Off Day 2), under the suspensive condition that the NLB prior to 11 October 2021 does not publish, in the manner prescribed for the publication of controlled information, a notice stating that the Management Board of NLB has partially or completely cancelled the payment of the second dividend instalment;

2. Part 2 in the amount of EUR 317,192,219.43, potentially increased by a part of the second dividend instalment not paid to the Shareholders due to the cancellation of the dividend payment, remains undistributed and represents retained earnings.

The Management Board of NLB is entitled and obliged to partially or completely cancel the payment of the second dividend instalment and thereby partially reduce the total amount of distributable profit intended for the payment of dividends only if the payment or assumption of the obligation to pay the second dividend instalment were contrary to the regulations.

With regard to the first dividend instalment, the day of announcement of the corporate action to the Central Securities Clearing Corporation system members is the first working day after the close of session of the General Meeting at which this resolution was adopted (15 June 2021) and the day without entitlement is the last working day prior to Cut-Off Date 1 (18 June 2021).

If the payment of the second dividend instalment is not cancelled, the day of announcement of the corporate action to the Central Securities Clearing Corporation system members in relation to the second dividend instalment is 11 October 2021, and the day without entitlement is the last business day prior to Cut-Off Day 2 (14 October 2021).

Pursuant to Article 272 of the Companies Act and the above report the Supervisory Board of NLB established and ensured that it regularly and thoroughly monitored the Bank's and the NLB Group's operations in 2020 within its powers and efficiently supervised the Bank's and the NLB Group's management and operations.

## **Report in accordance with the applicable corporate governance code**

In the following part of this report Supervisory Board of NLB addressed the topics that should be included in this report based on the Corporate Governance Code for Listed Companies as applicable corporate governance code for NLB.

In accordance with the recommendation No. 5 of the Corporate Governance Code for Listed Companies a company must include Corporate Governance Statement into business report of the

annual report. Corporate Governance Statement must be drawn up in accordance with the provisions of the Article 70, Paragraph 5 of the Companies Act. In the framework of the adoption of the annual report the Supervisory Board of NLB must take a stand on the Corporate Governance Statement as well. The Supervisory Board of NLB discussed the Corporate Governance Statement of NLB at its 2nd regular meeting dated 18 February 2021 and had no additional remarks or comments to it. The Corporate Governance Statement of NLB was adopted unanimously. It is part of the Business Report of the NLB Group 2020 Annual Report and it is also published on the Bank's website (<https://www.nlb.si/corporate-governance>).

In accordance with the recommendation of 12.11 of the Corporate Governance Code for Listed Companies the supervisory board's report presented at the general meeting offers a precise and credible account of the board's activities during the year.

Based on the Decision passed by the Constitutional Court of the Republic of Slovenia on June 2019 the General Meeting of Shareholders of NLB in June 2020 adopted the proposed amendments to the Articles of Association of the NLB, and thus enabled workers participation in managing bodies of the Bank. The Supervisory Board of NLB consists of 12 members, 8 members are representatives of capital, while 4 members are workers representatives, appointed by the Works Council. At the end of 2020, the Supervisory Board of NLB consisted of 11 members, The composition of the Supervisory Board of NLB was as follows: Primož Karpe (Chairman), Andreas Klingen (Deputy Chairman), and members representatives of capital Gregor Kastelic, Mark Richards, Shrenik Davda, Peter Groznik, David E. Simon, Verica Trstenjak, as well as Sergeja Kočar, Bojana Šteblaj and Janja Žabjek Dolinšek as members representative of workers.

In accordance with the two-tier governance system and the authorizations for supervising the Management Board of NLB, the Supervisory Board of NLB among other issues approvals to the Management Board of NLB related to the Bank's business policy and financial plan, approves the strategy of the Bank and the Group, organization of the internal control system, annual action plan of the Internal Audit and Compliance and Integrity and issues consents to all financial transactions defined in the Articles of Association of NLB.

In 2020, the Supervisory Board of NLB met at seven regular and twelve correspondence sessions. The Supervisory Board of NLB acquainted itself or adopted the following major decisions regarding:

- Annual NLB Group Report for 2019; Report of the Supervisory Board of NLB on the Results of Examining the Annual NLB Group Report for 2019; Corporate Governance Statement of NLB; Risk Management Statement of NLB; Annual Report of Internal Audit for 2019;
- Corporate Social Responsibility Report for 2019 with Statement on non-financial operations of the NLB Group for 2019;
- Proposal to convene the regular General Meeting of Shareholders of NLB for 15 June 2020;
- NLB Group Budget 2021 and financial projections 2022-25; Interim Reports on the NLB Group Operations;
- NLB Group Risk Appetite; NLB Group Risk Strategy; Regular risk reports for NLB and NLB Group; Regular Risk and Capital Management - Pillar III disclosures, NLB Group Recovery plan 2020; Report on Top 50 groups of clients, Restructuring TOP 20 clients; ILAAP – Internal liquidity adequacy process; Covid-19 implications with regulatory and governmental measures;
- Internal Audit Plan (2021), Overall Opinion of Internal Audit for 2019, Action Plan for the Compliance and Integrity for 2021, Annual Assessment on Risks in the Area of Compliance and Integrity for NLB and NLB Group; Regular periodic reports on Internal Audit; Compliance and Security and on Information Security Assurance in NLB;
- Reports on the Documents received from the Bank of Slovenia and the ECB;
- Achievements of the goals of the Management Board in 2019 and Defined goals of the Management Board for 2020, Management Board Evaluation – Method 360; Fit&Proper of candidates for members of the Supervisory Board; Fit&Proper Assessment of candidate for the member of the Supervisory Board – Workers Representative; Self-assessment of the employees performing special work; Training Plan for 2020;
- NLB Workers' Council Status Report on workers' cooperation in managing proposed measures;
- IT Strategy; CBS Strategy; Data Center Strategy update; NLB Group Data Management Project; HR status in IT, Information on activities for information security assurance in NLB, Plan for KB, Subsidiaries IT landscape

- Acquisition of the Komercijalna banka; Decisions on concluding legal transactions with MIGA, Washington, establishment of new NLB Cultural Heritage Management Institute, large exposures, sale of receivables, write-offs of claims, divestment of NLB (Vita d.d., company BH-RE d.o.o., Sarajevo), major legal proceedings involving NLB and NLB Group members, approval of transactions with persons in special relations with the Bank, etc.

In its work, the Supervisory Board of NLB received professional assistance from five of its operational committees, namely the Audit Committee, the Risk Committee, the Nomination Committee, Remuneration Committee and the Operations and Information Technology Committee. Their areas of activity and scope of authorities, composition, functioning and other issues are regulated by the rules of procedure of individual committees adopted by the Supervisory Board of NLB.

All five committees of the Supervisory Board of NLB function as consulting bodies of the Supervisory Board of NLB and discuss the materials and proposals of the Management Board of NLB related to a particular area. Each of the five committees is composed of at least three members of the Supervisory Board of NLB.

The Audit Committee monitors and prepares draft resolutions for the Supervisory Board of NLB on accounting reporting, internal control and risk management, internal audit, compliance, and external audit, and as well monitors the implementation of regulatory measures.

The Risk Committee monitors and drafts resolutions for the Supervisory Board of NLB in all risk areas relevant to the Bank's operations. It is consulted on the current and future risk appetite and the risk management strategy and helps carry out control over senior management concerning implementation of the risk management strategy.

The Nomination Committee drafts proposed resolutions for the Supervisory Board of NLB concerning the appointment and dismissal of the members of the Management Board of NLB; recommends candidates for members of the Supervisory Board of NLB; recommends to the Supervisory Board of NLB the dismissal of members of the Management Board of NLB and the Supervisory Board of NLB (representatives of capital); prepares the content of executive employment contracts for the President and members of the Management Board of NLB; evaluates the performance of the Management Board of NLB and the Supervisory Board of NLB; and assesses the knowledge, skills, and experience of individual members of the Management Board of NLB and Supervisory Board of NLB and the bodies as a whole.

The Remuneration Committee carries out expert and independent assessments of the remuneration policies and practices, and formulate initiatives for measures related to improving the management of the Bank's risks, capital, and liquidity; prepares proposals for remuneration-related decisions of the Supervisory Board of NLB; and supervises the remuneration of senior management performing the risk management and compliance functions.

The Operations and IT Committee monitors and prepares draft resolutions for the Supervisory Board of NLB, whereby the main tasks that it performs are the following: monitors the implementation of the IT Strategy, Information Security Strategy, and Operations Strategy; monitors key operations and IT KPI's and service quality indicators; monitors key operations and IT projects and initiatives; monitors operating risks in the area of Operations, IT and Security; monitors the recommendations for ensuring and increasing the level of information/cyber security issued by CISO, addresses the report on potential violations, events and incidents in the area of IT security; and monitors the Target Operating Model implementation in the areas of IT, the Security Operating System, Competence Centre and Operations.

In 2020, the Supervisory Board of NLB did not carry out a self-assessment of its composition, operation, potential conflicts of interest of individual members, in line with the recommendation of the Corporate Governance Code for Listed Companies due to substantial changes in the composition of the Supervisory Board of NLB. Firstly, in 2020 a mandate of four members of the Supervisory Board expired and secondly, NLB was the first bank in the Republic of Slovenia that implemented decision of the Constitutional Court that enabled workers participation in managing bodies of banks.

Consequently, by the end of 2020 there were four new members in the Supervisory Board of NLB, while two members were re-elected as members of the Supervisory Board of NLB. Activities for self-evaluation of the Supervisory Board of NLB are under way and will be concluded soon.

However, Self-Evaluation of the Audit Committee work for 2019 was performed in August 2020. On the Session of the Supervisory Board of NLB dated 12 August 2020, the Action plan was adopted to further improve and upgrade the work of the committee in identified areas. Final report on implementation of the of the Action plan was adopted in November 2020, when it was established that improvements from self-assessment process to a great extent contribute to better functioning of the Audit Committee, therefore Self-Evaluation of the Audit Committee will be performed each year.

While members of the Supervisory Board of NLB have proper and complementary knowledge, experience, and skills to perform their duties, they all have different professional, national, and educational backgrounds. The Supervisory Board of NLB represents a balanced, complementary team of experts focused on the effectiveness of performing its core functions. All the members of the Supervisory Board of NLB have the necessary personal integrity and professional ethics to hold their positions. This provides the assurance that they can carry out their supervisory roles in a responsible manner and make decisions that benefit the Bank and add value to the NLB Group. The delivery of critical and assertive opinions has been and will remain at the core of our decision-making principles, through the expected engaged participation of all the members at all times.

Upon resuming new functions all members of the Supervisory Board of NLB signed the Statements of Independence of Supervisory Board members (in January 2021), based on the Corporate Governance Code for Listed Companies. A member of the Supervisory Board of NLB must immediately inform the Supervisory Board of NLB of any new potential conflicts of interest. The Statement on the absence of a conflict of interest of the members of the Supervisory Board of NLB) is published on the Bank's website.

The Supervisory Board of NLB acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest. The conflict of interest is regulated by Article 6 of the Rules of Procedure of the Supervisory Board of NLB (September 2019). When deciding on individual issues at the meetings of the Supervisory Board of NLB, its members followed the general rules of corporate governance concerning conflicts of interests, so that they informed the Supervisory Board of NLB of the existence of a conflict of interests in specific cases in advance. Throughout the year, the members of the Supervisory Board of NLB adopted preventive measures to prevent potential conflicts of interest that could affect their decisions, they did not receive certain materials, they did not attend certain topics discussed or they excluded themselves from discussion and decision-making on the issue. There were 11 potential conflicts of interest in 2020 that were managed appropriately.

**In line with the above, the Supervisory Board of NLB has no comments in relation to the NLB Group Annual Report 2020 and gives approval to the mentioned report. As the NLB Group Annual Report 2020 is approved by the Supervisory Board of NLB, it is considered adopted.**

**The Supervisory Board of NLB hereby proposes that the General Meeting of Shareholders of NLB acknowledges the Report of the Supervisory Board of NLB on the results of the examination of the NLB Group Annual Report 2020.**

Ljubljana, 8 April 2021



Supervisory Board of NLB

Primož Karpe  
Chairman of the Supervisory Board