

Nadzorni svet NLB d.d.
61. Redna seja
02.04.2020

Potrditev Letnega poročila NLB Skupine za leto 2019

Confirmation of NLB Group Annual Report 2019

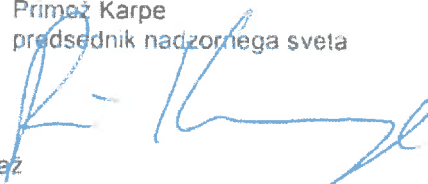
Odpravek sklepa 3.1.

1. Nadzorni svet NLB d.d. potrjuje Letno poročilo NLB Skupine za leto 2019

Copy of the resolution 3.1.

1. The Supervisory Board of NLB d.d. confirms the NLB Group Annual Report 2019

Primož Karpe
predsednik nadzornega sveta

A handwritten signature in blue ink, appearing to read 'P. Karpe', is written over the printed name and title.

Odpravek sklepa prejmejo:

4245 Dolgoročno zadolževanje banke, Grčar Matjaž
4245 Dolgoročno zadolževanje banke, Lavrič Damjana
3674 Vodstvo Finančnih trgov, Kovačič Košak Uršula
3061 Kontroling, Stražišar Andreja
3563 Vodstvo Finančnega računovodstva in operative, Knavs Anica

Report of the Supervisory Board of NLB d.d. on the results of examining the NLB Group Annual Report 2019

Pursuant to the provisions of the Companies Act¹ (ZGD-1) and the relevant Corporate Governance Code for Listed Companies, the Supervisory Board compiled the written report for the General Meeting of Shareholders of NLB d.d.

1.) Report of the Supervisory Board of NLB d.d. on the results of examining the NLB Group Annual Report 2019 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, 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 2 April 2020, the Supervisory Board of NLB d.d. met at its 61th meeting and discussed the NLB Group Annual Report 2019 and the attached auditor's report prepared by Ernst & Young, Revizija, poslovno svetovanje d.o.o., Ljubljana (hereinafter: **Ernst & Young**). The Supervisory Board of NLB d.d. examined the compiled NLB Group Annual Report 2019. After a careful examination, the Supervisory Board of NLB d.d. had no comments to the report and therefore approved it, which means that the report is adopted.

Another successful year was completed for the NLB Group, generating net profit in the amount of EUR 193.6 million in 2019. Total net operating income increased by 4%, profit before impairments and provisions by 4%, while NPE ratio was reduced significantly from 4.7% to 2.7%. All subsidiary banks in the SEE markets also operated with a profit and contributed 39% to the Group's result (2018: 37%). NLB Group is now set for further enhancing a leading position in our markets.

Total net operating income amounted to EUR 513.6 million, representing a 4% increase YoY (2018: EUR 493.3 million), and was driven by higher net interest income (by EUR 5.6 million or 2%) due to loan volume growth and lower interest expenses, as well as higher net fee and commission income (by EUR 9.7 million or 6%).

CIR stood at 58.7%. Net interest margin in the NLB Group decreased by 0.08 p.p. YoY and amounted to 2.48%. The cost of risk was negative, -20 bps. Profit before impairments and provisions totaled EUR 212.2 million, which is 4% higher YoY.

Total assets of the NLB Group increased by EUR 1,434.1 million YoY and totaled EUR 14,174.1 million, mainly due to the continued inflows of deposits, mostly from individuals (growth by EUR 717.3 million or 9%). Net loans to customers of the NLB Group also increased by 6% YoY. The biggest increase of net loans to customers YoY was recorded in NLB Banka Beograd (a growth of 29%) and NLB Banka Prishtina (a growth of 16%).

In 2019, NLB Group continued to follow the principle of prudent risk-taking with an emphasis on diversification, which guarantees the high quality of the loan portfolio. This is reflected in its stable credit rating structure and a very low share of new NPLs formation (0.6% of the total loan portfolio). In addition, the internationally comparable NPE ratio (based on the EBA guidelines) dropped to 2.7% (2018: 4.7%), so that at the end of last year the NLB Group already exceeded the set medium-term target (4%). An important Group strength is the NPL coverage ratio, which remains high at 89.2%.

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

The Total Capital Ratio for the NLB Group stood at 16.3% at the end of 2019, which is above the regulatory requirements. As it is known, NLB issued subordinated Tier 2 bonds in November last year and successfully returned to the international loan capital market, thus confirming the high investor confidence.

The Supervisory Board of NLB d.d. expressed its satisfaction with the achieved results. Progress was also noted in the area of digitalization, simplification and modernization of the processes and services which confirms that the entire NLB Group accepted the technological development and digitalization as new opportunities for further growth. The Bank as well as the other members of the NLB Group played an active role of a generator of innovative, advanced and simple solutions for clients on their respective markets. The focus on the client, its needs and satisfaction is shown by the improved user experience and constant availability on the one hand and the in-depth advisory role on the other hand. In addition to the stable, sustainably profitable operations and a clear vision, this is the guarantee for a successful performance of the NLB Group also in the future.

The Supervisory Board of NLB d.d. performed its work in line with the powers vested in it and the Rules of Procedure of the Supervisory Board of NLB d.d. (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 Nova Ljubljanska banka d.d.).

The Supervisory Board of NLB d.d. monitors and supervises the management and operations of the bank. Throughout the year, the Supervisory Board of NLB d.d. maintained a balanced professional relationship with the Management Board of NLB d.d. and received timely, comprehensive and data-supported information from the Management Board which allowed it to adopt decisions in accordance with the Bank's business interests, banking regulations and statutory powers. The Management Board of NLB d.d. regularly and completely informed the Supervisory Board of NLB d.d. of all issues related to the strategy, planning, development, risks and risk management important for the Bank. The co-operation between the Chairman of the Supervisory Board of NLB d.d. and the President of the Management Board of NLB d.d. 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 d.d. outside the formal meetings. The Supervisory Board of NLB d.d. assessed that in the business year 2019 the Management Board of NLB d.d. worked professionally, successfully and efficiently.

Regarding the new commitments made by the Republic of Slovenia to the European Commission in August 2018 the Supervisory Board of NLB d.d. monitored the fulfilment of those commitments during the 2019. A representative of KPMG, poslovno svetovanje d.o.o., Ljubljana in the role of the Monitoring Trustee, who was in charge of supervising the fulfilment of the commitments, was invited to all of Supervisory Board's meetings.

In 2018, the General Meeting of NLB d.d. 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 d.d., 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 2019. The Management Board of NLB d.d. submitted to the Supervisory Board of NLB d.d. the NLB Group Annual Report 2019, which includes the business report with audited financial statements of NLB d.d., the consolidated financial statements of the NLB Group and the auditor's opinions. In 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 d.d. and the NLB Group as at 31 December 2019, 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 on the basis of the audit 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 d.d. acknowledged the report of the auditing company Ernst & Young to the NLB Group Annual Report 2019 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 d.d. also checked the proposal of the Management Board of NLB d.d. for the allocation of distributable profit of NLB d.d. for the business year 2019 and approved it.

The distributable profit of NLB d.d. as at 31 December 2019 amounts to EUR 228,039,879.73 and consists of NLB net profit for 2019 in the amount of EUR 176,148,615.15 and retained earnings from previous years in the amount of EUR 51,891,264.58.

The total distributable profit of EUR 228,039,879.73 shall remain undistributed representing the profit carried forward.

Pursuant to Article 272 of the Companies Act and the above report the Supervisory Board of NLB d.d. established and ensured that it regularly and thoroughly monitored the Bank's and the NLB Group's operations in 2019 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

With the aim of improving the bank's corporate governance, the Supervisory Board of NLB d.d. performed its duties in compliance with the relevant Corporate Governance Code for Listed Companies (October 2016)². Pursuant to the recommendations 5.1 and 12.11 of the mentioned code the Supervisory Board of NLB d.d. also prepared the following report for the Bank's General Meeting:

At the beginning of 2019, the Supervisory Board of NLB d.d. was composed of eight members, namely: Primož Karpe - Chairman, Andreas Kligen - Deputy Chairman, and the following members: Alexander Bayr, David Eric Simon, László Urbán, Vida Šeme Hočevar, Simona Kozjek and Peter Groznik. On 28 February 2019, a three-month notice period for resignation from the function of Simona Kozjek and Vida Šeme Hočevar expired.

Despite full awareness of the European bank average, in terms of female participation at the level of key governing bodies, and even though the selection process for four new members of the Supervisory Board was open to candidates of both genders, female representatives unfortunately did not participate in the selection process.

Therefore, at the General Meeting on 10 June 2019 three members of Supervisory Board were appointed (Mark William Lane Richards, Shrenik Dhirajlal Davda and Gregor Rok Kastelic), whereas one member's term of office was renewed (Andreas Kligen). On 28 June 2019, the Supervisory Board met for the first time with all nine members, as defined by the Articles of Association of the Nova Ljubljanska banka d.d. At the mentioned meeting the Supervisory Board also allocated members to its existing committees (Audit, Risk, Remuneration and Nomination) and established a new committee for Operations & IT.

In accordance with the two-tier governance system and the authorizations for supervising the Management Board, the Bank's Supervisory Board among other issues approves to the Management Board 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 all financial transactions defined in the Articles of Association of Nova Ljubljanska banka d.d. The Supervisory Board of NLB d.d. acts in accordance with the highest ethical standards of management, considering the prevention of conflicts of interest.

² In addition to the statutory contents, the report of the Supervisory Board to the General Meeting should also include relevant information on the internal organisation of the Supervisory Board, on the composition of the Supervisory Board from the aspect of the independence of its members, on the (potential) conflict of interest and their settlement, and on procedures for the operation of the Supervisory Board including the indication of how much the self-assessment (i.e., the procedure for the evaluation of efficiency) has contributed to changes.

In 2019, the Supervisory Board met at seven regular, ten correspondence and one extraordinary session. In its work, the Supervisory Board of NLB d.d. received professional assistance from five of its operational committees, namely the Audit Committee, the Risk Committee, the Nomination Committee and the Remuneration Committee and of the newly established the Operations and Information Technology Committee. The composition and tasks of which are presented in the chapter on Corporate Governance in the NLB Group Annual Report 2019.

All five committees of the Supervisory Board function as consulting bodies of the Supervisory Board of NLB d.d. and discuss the materials and proposals of the Management Board of NLB d.d. related to a particular area. Each of the five committees is composed of at least three members of the Supervisory Board. More detailed work of the committees of the Supervisory Board of NLB d.d. is presented in the chapter on Corporate Governance in the NLB Group Annual Report 2019.

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 must take a stand on the Corporate Governance Statement as well. The Supervisory Board of NLB d.d. discussed the Corporate Governance Statement of NLB d.d. at its 60th regular meeting dated 20 February 2020 and had no additional remarks or comments to it. The Corporate Governance Statement of NLB d.d. was adopted unanimously.

In line with the recommendation 14 (in connection with recommendation 12.11) of the Corporate Governance Code for Listed Companies the Supervisory Board of NLB d.d. carried out a self-assessment of its composition, operation, potential conflicts of interest of individual members and the functioning of individual members of the Supervisory Board of NLB d.d. and the Supervisory Board of NLB d.d. as a whole, as well as its cooperation with the Management Board of NLB d.d. In its assessment, the Supervisory Board of NLB d.d. also included the assessment of the work of the committees of the Supervisory Board of NLB d.d. The Supervisory Board of NLB d.d. also acknowledged the results of the self-assessment and adopted the Action plan for the implementation of recommendations and/or findings from the conducted self-assessment, which was fully executed in March 2019. Improvements from self-assessment process will contribute to better functioning of the Supervisory Board of NLB d.d. also in the future.

While members of the Supervisory Board have proper and complementary knowledge, experience, and skills to perform their duties, they all have different professional, national, and educational backgrounds. The Supervisory Board represents a balanced, complementary team of experts focused on the effectiveness of performing its core functions. All the members of the Supervisory Board have the necessary personal integrity and professional ethics to hold their positions, which was confirmed by the positive fit & proper assessment completed in March 2019. 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 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 d.d. signed the Statements of Independence of Supervisory Board members (in July 2019), based on the Corporate Governance Code for Listed Companies. A member of the Supervisory Board of NLB d.d. must immediately inform the Supervisory Board of NLB d.d. 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 d.d. (in the form of Attachment C to the Corporate Governance Code for Listed Companies) is published on the Bank's website.

The conflict of interest is regulated by Article 6 of the Rules of Procedure of the Supervisory Board of NLB d.d. (March 2019). When deciding on individual issues at the meetings of the Supervisory Board of NLB d.d., its members followed the general rules of corporate governance concerning conflicts of interests. At the meetings, they informed the Supervisory Board of NLB d.d. of the existence of a conflict of interests in specific cases and excluded themselves from discussion and decision-making on the issue. As a result of the termination of the term of office of a member of the Supervisory Board

of NLB d.d. who was a member of the Board of Directors in a Serbian bank and the expiration of the three-month notice of resignation of two members of the Supervisory Board of NLB d.d. on 28 February 2019, potential conflict of interest of members of the Supervisory Board of NLB d.d. does not exist anymore.

Throughout the year, the members of the Supervisory Board of NLB d.d. adopted preventive measures to prevent potential conflicts of interest that could affect their decisions. The Supervisory Board of NLB d.d. actively managed the conflicts of interest of its members and gave them consent for assuming positions on the supervisory boards of unrelated companies.

In line with the above, the Supervisory Board of NLB d.d. has no comments in relation to the NLB Group Annual Report 2019 and gives approval to the mentioned report. As the NLB Group Annual Report 2019 is approved by the Supervisory Board of NLB d.d., it is considered adopted.

The Supervisory Board hereby proposes that the General Meeting of Shareholders of NLB d.d. to acknowledge the Report of the Supervisory Board of NLB d.d. on the results of the examination of the NLB Group Annual Report 2019.

Ljubljana, 20 March 2020

Supervisory Board of NLB d.d.

Primož Karpe
Chairman of the Supervisory Board

