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## Introduction

In accordance with Article 70.c of the Companies Act, since 2017 NLB has also reported on special provisions regarding companies that are subject to public interest in accordance with which the NLB is obliged to include in its business report the Non-financial Statement. The report must contain information on environmental issues, social and personnel issues, information on respect for human rights and information on the fight against corruption and bribery.

In accordance with the request of the Companies Act, the Non-financial Statement was divided into seven key chapters:

- Description of the company's business model
- Social responsibility of the NLB Group
- Environmental issues
- Social and personnel issues
- Respect for human rights
- Issues related to the fight against corruption and bribery
- Promoting freedom of expression on Internet and elsewhere

All substantive chapter's present operations in the area of requested issues. In line with Article 70c of the Companies Act, each substantive chapter presents:

- Formal bases on the basis of which the NLB Group monitors the matters which have to be presented in the report. Formal bases are constituted by descriptions of the company's policies and internal or external rules, instructions or regulations as well as other written procedures, instructions or rules regarding substantive issues, including implementation of due diligence procedures.
- Results of policies or internal and external rules, instructions or regulations, and formal bases on the basis of which the NLB Group monitors the matters which have to be presented in the report (findings reached by the Bank on the basis of monitoring the implementation).
- Main risks in relation to the above stated issues related to activities of the NLB Group, including business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks.
- Key non-financial performance indicators relevant to individual activities.
- How in addition to monitoring these issues in the NLB they are monitored in other members in the NLB Group as well.

The report was prepared by coordination of various specialised divisions of the Bank, which also collected data for the NLB Group through their business lines.

Persons responsible for the report in the NLB Group by area:

- Description of the NLB Group business model: Ivan Radnai, Director of Strategy and Development
- Social responsibility of the NLB Group: Andrej Krajner, Director of Communications
- Environmental issues of the NLB Group: Andraž Kramer, Director of Procurement and CREM
- Social and personnel issues of the NLB Group: Vesna Vodopivec, Director of Human Resources and Organisation Development
- Respect for human rights in the NLB Group: Rok Praprotnik, Director of Compliance and Integrity, Nada Drobnič, Director of NLB Contact Centre
- Issues related to the fight against corruption and bribery in the NLB Group: Rok Praprotnik, Director of Compliance and Integrity
- Promoting freedom of expression on Internet and elsewhere Andrej Krajner, Director of Communications

Pursuant to ZGD-1J, the Non-financial Statement of the NLB Group for 2018 will be attached to the Annual Report on the Socially Responsible Policy of the NLB Group for 2018.

## 1. Description of the NLB Group business model

The NLB Group is the largest banking and financial group in Slovenia, with strategic orientation in selected markets of SE Europe. It is present on markets with a population of around 17 million in total. The NLB Group consists of NLB as the parent company in Slovenia, six subsidiary banks in SE Europe and several companies providing other services (asset management, insurance, real estate management etc.) and a limited number of non-strategic companies, which are in the process of controlled liquidation. NLB is 35% owned by the Republic of Slovenia. The key strategic areas of operations of the Group in 2018 continue to be Retail Banking in Slovenia, Corporate Banking in Slovenia and Strategic Foreign Markets.

### Retail Banking

The main pillar of operations of the NLB Group is Retail Banking, where the Bank has a leading position on the Slovenian market, offering comprehensive financial products and services. NLB Bank is notable for its vast and ramified network of 94 branch offices and 551 ATMs and Contact Centre providing high-performance and high-quality services for all its clients and business partners. In 2018, Retail reached good results in spite of the difficult situation on the Slovenian market. Apart from good business performance NLB Bank has an important CSR mission to contribute to better quality of life of all citizens of the region it operates in. The Bank is socially accountable to its clients, employees, environment and society at large.

### Corporate Banking

In the area of Corporate Banking in Slovenia, the Bank has a leading position as the key advisor to Slovenian companies of all sizes, offering its clients the whole range of financial products and services. These include lending, cash management, payment services, trade finance services and consulting, and transactions on capital markets, including services on the markets of debt and equity capital, mergers and acquisitions, and consulting and treasury services. On capital markets, the Bank has a traditional role of connecting Slovenia with foreign financial markets and vice versa, as it offers a whole range of stockbroking and custody services for domestic and international clients. Excellent partnership is based on long experience and profound and true understanding of the clients' business needs. The Bank is strategically oriented in increasing support to small and micro companies. In financing of non-financial companies, the NLB Group follows carefully drafted principles, guidelines and procedures. Activities which the Bank does not finance include illegal activities; production and trade in weapons, political parties, political forums and religious communities.

### Strategic Foreign Markets

The strategic part of the NLB Group in foreign markets consists of six banks in five countries of SE Europe. They are noted for profitable operations, high capitalisation and self-funding, high reputation and recognition for their state-of-the-art products, services and distribution channels. This puts them in a good position to exploit the growth potential in the region. Four banks have a more than 10% market share in their markets. All subsidiaries follow the strategy of organic growth on the local market with reasonable networking at the level of the NLB Group. Apart from the retail network in Slovenia the NLB Group's vast network on the SE European markets consists of 233 branches and services 1.14 million active clients.

### Non-Strategic Subsidiaries

The NLB Group plans a controlled and gradual elimination of non-strategic part of the segment. The process is still underway and the strategy is being implemented by various measures, such as selling companies, portfolio and assets as well as collection or restructuring of individual receivables and closing of subsidiaries in the liquidation process.

## **2. Social responsibility of the NLB Group**

2018 saw the revision of the Policy of social and environmental responsibility of the NLB Group which has been already implemented by NLB. The NLB Group has an important socially responsible mission. In addition to the good performance of the Bank, the latter also wishes to contribute to a higher quality of life of the wider society.

### **Results of policies and internal or external rules, instructions or regulations (findings reached by the Bank on the basis of monitoring the implementation)**

Regular annual reporting on the implementation of social and environmental policy in the whole NLB Group has been established.

In 2016, we also started to monitor social and environmental policy including socially responsible conduct in such a way as presented by GRI standards. Each year we shall try to monitor more standards, also those that are not obligatory in line with standardisation.

### **Main risks in relation to the above stated issues related to activities of the company, including its business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks**

The key risks in relation to social and environmental responsibility of the NLB Group arise from the social, political, geographical and economic diversities of the region in which the NLB Group operates.

### **Key non-financial performance indicators relevant to individual activities**

The NLB Group is responsible to its clients, employees and the social environment, and wishes to become their responsible and diligent mentor. The Bank pays special attention to knowledge and lifelong learning. The key pillars of the socially-responsible operations of the NLB Group are care for its employees and protection of lawfulness and integrity, as well as promotion of entrepreneurship, increasing financial literacy and mentorship, humanitarian activities, support to professional and youth sports, and protection of cultural heritage.

### **Social and environmental policy in the core members of the NLB Group**

Already in 2011, all NLB Group member banks adopted their Social and environmental policy following the example of NLB d.d., and in their operations they act in accordance with the local banking legislation and environmental requirements, which is annually reviewed and revised. In 2019, the revised Policy of social and environmental responsibility of the NLB Group will also be introduced in all core members of the NLB Group.

### **3. Environmental issues**

#### **Results of policies and internal or external rules, instructions or regulations (findings reached by the Bank on the basis of monitoring the implementation)**

The NLB has established regular annual reporting on implementation of social and environmental policy. Each year, we try to include more environmental policy contents in monitoring and reporting environmental issues and to include sustainable strategy in the Bank's operations.

In 2016, we also started to monitor social and environmental policy including socially responsible conduct in such a way as presented by GRI standards.

#### **Main risks in relation to the above stated issues related to activities of the company, including its business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks**

The key risk in the area of environmental issues is to determine proper ratio between reducing the cost of the Bank's operations and providing sustainable ordering of renewable and non-renewable natural sources and purchase policy of the Bank.

#### **Key non-financial performance indicators relevant to individual activities**

The NLB is aware of their responsibility to the environment. Banking activity in itself does not represent any large threat to the environment. Nevertheless, management of waste and natural sources must be responsible and this fact as well as the environmental impacts have to be increasingly taken into account in the purchase policy.

### **3.1. Management of waste, paper, water, emissions, fuel**

NLB strictly follows environmental legislation and requirements which in greater detail define the management of waste, emissions and waste fuels. The main regulations defining the area of waste management in Slovenia are Environmental Protection Act, Public Utilities Act, Decree on Waste Management (Official Gazette of the RS, No 34/08), Regulation (EC) No 1013/2006 on shipments of waste (OJ L 190, 12.7.2006, p. 1) and Decree on the implementation of the Regulation (EC) No 1013/06 on shipments of waste (Official Gazette of the RS, No 71/07).

#### **Results of policies and internal or external rules, instructions or regulations (findings reached by the Bank on the basis of monitoring the implementation)**

Waste baskets were removed from all premises of the NLB and replaced by collection points where employees separate waste (packaging, mixed municipal waste, paper).

#### **Main risks in relation to the above stated issues related to activities of the company, including its business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks**

The risk in the case of non-separating waste is payment of a fine (a fine is paid by both the NLB and the President of the Management Board of NLB).

#### **Key non-financial performance indicators relevant to individual activities**

The objective in the area of waste, paper and emissions management is further respect of legislation and appropriate handling of waste and emissions

### **3.2. Building and vehicle fleet management**

#### **Results of policies and internal or external rules, instructions or regulations (findings reached by the Bank on the basis of monitoring the implementation)**

NLB strictly follows environmental legislation and requirements which in greater detail define the management of waste, emissions and waste fuels.

#### **Main risks in relation to the above stated issues related to activities of the company, including its business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks**

The NLB has no environmental risk in the area of building management. The environmental legislation and environmental requirements are taken into account upon renovation.

#### **Key non-financial performance indicators relevant to individual activities**

When renovating business premises and replacing machine installations, heat pumps and other environmentally friendly devices are installed.

The key goal of the NLB in this area is to omit the use of devices that are tied to the use of fossil fuels (especially fuel oil).

### **3.3. Purchasing policy**

The formal basis of the NLB's purchasing policy is the contract with the supplier. With the supplier of electric energy an agreement was concluded on 50% share of electric energy obtained from RES and CHP, which is defined in the supplier contract on the basis on the law. The goal is to maintain the same percentage of electric energy obtained from RES and CHP.

#### **Results of policies and internal or external rules, instructions or regulations (findings reached by the Bank on the basis of monitoring the implementation)**

The supplier of electric energy has to state the source of the supplied electric energy and attach the certificate on liquidation of the relevant number of certificates on electric energy source to show that a 50% share of the supplied electric energy was obtained from RES (renewable energy sources) and CHP (co-generation of heat and power).

NLB signed with the supplier Avant Car a contract on the shared use of electric vehicles (mostly for rides in Ljubljana and the vicinity). In this way the use of fossil fuel vehicles will be slightly reduced; however, there are no environmental risks in this area and no written bases/rules/instructions/laws or methodology; there are also no goals defined for this area.

#### **Main risks in relation to the above stated issues related to activities of the company, including its business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks**

There are no environmental risks.

#### **Key non-financial performance indicators relevant to individual activities**

The key goal of the NLB in this area of purchasing policy is to omit the use of devices that are tied to the use of fossil fuels (especially fuel oil).

## 4. HR challenges in NLB Group

Main goal of HR policy of the NLB Group is to invest in the systematic development of employees and to follow continually to modern approaches of HR management. Furthermore, development of HR must be systematic and target-oriented process, based on appropriate HR methodologies and procedures, as the Group can develop efficiency and commitment by employees only by means of targeted investments in its human resources.

NLB Group has adopted a common HR strategy in which key HR processes are clearly defined in order to support business performance and organizational development. Business performance of the NLB Group is also based on modern and continuous approach of HR management, within performance management process, which is systematically implemented in all banks.

### **Results of policies or internal and external rules, instructions or regulations (findings reached by the Bank on the basis of monitoring the implementation)**

NLB Group devotes great attention to all major HR topics, which have to be covered by modern HR function:

- workforce planning and talent acquisition,
- on-boarding of new employees,
- talent management,
- employee education and development,
- leadership development,
- performance management aimed at measuring and remunerating job performance,
- succession planning and career development,
- compensation system and system of bonuses and benefits
- as well as development of the Bank's corporate common culture.

HR development in the Group is based on common model of competencies, developed for all job profiles. When assessing competencies, the identified gaps within required competencies are included in employees' personal development plan. Assessment of competencies is conducted regularly, especially for all managers, talents, successors and for some key professionals. The Catalogue of Competencies plays an important role in employee development as it serves as a basis for planning of different development activities.

Since the development of employees begins on the first day of the newly employed the Group has established the new employee on-boarding process intended to set up systematic delivery of information and contents every newly employed has to be acquainted with. The on-boarding process is extremely important as appropriate and effective integration of a new employee largely affects their motivation, commitment and consequently their performance at work. Education, training and development with mentor are the key activities that support the planned development of each employee and are mainly carried with internal experts.

In the NLB Group, the development process is harmonised with its mission, vision and goals as well as other parts of the HR system. The Group shows its special interest for this topic by increasing the funds allocated to development every year. It is also Group's strategy to develop and use its own in-house experts to conduct in-house trainings. Consequently, organisation and implementation of internal education and trainings (hereinafter: internal education) has priority over other types of education. The programme includes development of competencies, expert knowledge and functional skills. Investments in the future skills of the employees are a prerequisite for high work efficiency and business performance of the Group in the future.

With Talent Management Strategy in the NLB Group we aim to identify employees with high potential for more demanding jobs. This opens up the possibilities for career development of the key employees and gives priority to internal (re)employment over external recruiting. Talents are involved in several trainings to obtain the skills needed for the future challenges. A special development program is set up for each talent group (leadership, professional, young), covering their specific development and career needs. Talents from all banks are involved in development programs, where they have opportunity to learn about creative thinking, strategic management, communication, and coaching.

With the aim of improving teamwork and employee engagement in working environment, organisational climate survey is conducted in all banks each year. The purpose of the survey is to identify concrete opinions of the employees and their satisfaction as well as to create appropriate activities to improve the climate. Employee feedback is of exceptional importance for introducing changes and improvements. The progress is noticed in the increased employee responsiveness. The corporate climate is a consequence of the corporate culture. For the purpose of establishing the causes and areas where activities can be implemented that would improve the corporate climate and commitment, we also started exploring our corporate culture.

Preliminary preventive medical examinations, targeted periodical preventive medical examinations, other prescribed measures are carried out in all banks. For a number of years, the NLB has been practising a socially responsible attitude to its employees through systematic training within well being topic. Our everyday stress levels and workload are constantly growing, and it is important to work together to determine how to find enough time to improve well-being of employees.

Since the NLB is the largest regional banking group it tries to harmonise its best practices in its members through minimum HR standards and harmonised HR strategies.

**Main risks in relation to the above stated issues related to activities of the company, including its business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks**

The risks in the area of HR management are managed by investments into education and development of staff, appropriate planning of employees, selection and remuneration of HR. Unwanted turnover is managed by planned successions, rotation of employees, mentorship and transfer of know-how and talent management strategy. Performance management, development interviews with employees and adequate development plans were introduced. Effectiveness of performance management process is annually checked in all banks, if necessary, adequate measures are adopted. The selection process is transparent, in line with local legislation.

The key risk indicators in the HR area are measured semi-annually.

**Key non-financial performance indicators relevant to individual activities**

For the purpose of identifying the causes and areas where additional activities can be implemented to improve the corporate climate and commitment, we also started exploring corporate culture in all banks. The key indicators are the share of retained personnel, the share of absenteeism, the share of fluctuation and the share of committed employees. The indicators showing investments in development of the employees are also important. They also include the share of employees participating in education and training, and the number of training hours per individual. The indicators showing how many development plans are implemented, especially talent development and career plans.

## **5. Respect for human rights**

### **5.1. Measures against mobbing and measures for improvement of organisational culture**

Zero tolerance and prohibition of any form of mobbing, as well as practical examples and guidelines for the employees have already been included in the Code of Conduct of the NLB Group, which is the basic document defining the desired and prohibited conduct in NLB and the NLB Group.

With the purpose to ensure the dignity of employees and to provide a working environment in which no worker is exposed to maltreatment and sexual or other harassment by anybody performing tasks for NLB the latter has established a system for preventing all forms of mobbing. A special commission for the renewal of anti-mobbing mechanisms in NLB composed of the representatives of the Bank, the NLB Workers' Council and the NLB Trade Union, revised the Policy for Prevention of Harassment and Mobbing of Employees in Nova Ljubljanska banka d.d., the Rules on the Prevention of Harassment and Mobbing at Work in NLB and the Instructions for the business process Prevention of harassment and mobbing at work. By using these documents and the established procedures, the Bank also determines prohibited actions on case-by-case basis and defines the procedure for their treatment and sanctioning of prohibited actions.

For this purpose, the Bank has appointed the officer for the prevention of harassment and mobbing at work and established the Joint Committee for the Prevention of Harassment and Mobbing, consisting of the representative of the Bank, the Workers' Council and the representative trade unions.

The key goal of the NLB is to prevent mobbing and any harassment of employees and to ensure a workplace which successfully prevents this so that no employee will be exposed to sexual or other harassment or maltreatment by anybody in the company.

Also at the level of the NLB Group, equal opportunities, justice and promoting culture focused on performance are respected. The personnel policies and practices are based on culture promoting equal opportunities and performance of employees. Discrimination is prohibited in the HR management practice. The relationship between employees and the management is founded on trust, support and constant feed-back. In the case of disagreement, the conflict resolution procedure is defined.

Employees participate in the Workers' Council and the Trade Union with which the Bank regularly cooperates at formal meetings and through consultations. The organisational climate/employment engagement and organisational culture are of key importance and, therefore, regular measurements are carried out and also an action plan for improvements is prepared. In most cases personnel practice of the Bank is above legislative minimum because the goal of the Bank is to ensure that employees are highly motivated and included in the Bank's operations. This is the reason why the Bank regularly monitors engagement of employees and the organisational culture and regularly checks the personnel practice.

### **5.2. Code of Conduct of the NLB Group**

In the Code of Conduct of the NLB Group, the NLB Group prescribes its core values and principles of conduct, thus establishing uniform rules of conduct in the daily operations throughout the NLB Group. In this way the NLB Group expresses its expectations that all employees and external business partners of NLB and NLB Group members respect human rights, employee rights and general standards of conduct defined in the Code of Conduct of the NLB Group.

The Code of Conduct of the NLB Group was already comprehensively revised in 2017. Through regular activities (risk identification, investigation of suspected misconduct etc.), a regular review of appropriateness of its implementation is also carried out, which, considering the size of the NLB Group, is at a high level. The implementation of the Code of Conduct (formerly the Code of Ethics and the Code

of Corporate Compliance) is verified by preventive checking of the compliance of the areas and processes, which also include risks of conduct (unethical behaviour, risks of internal and external fraud, conflict of interest risks, corruption risks, risks of violations in the field of information protection and personal data protection, etc.) as typical risks of compliance and integrity.

The NLB Group implements its standards of conduct by having established internal policies and procedures in order to prevent any breach of these standards, by carrying out regular training of employees and training of the target groups in the area of ethical conduct standards, and by performing regular assessments of risks in relation to outsourced providers and suppliers. Special procedures and channels for (anonymous) reporting suspected misconduct are established (including the internally accessible (NLB Net) and publicly accessible application Whistler at: [whistler.nlb.si](http://whistler.nlb.si)), as well as procedures and mechanisms for treating suspected misconduct and adopting corrective measures. Measures for the protection of informants (internal and external) have been implemented in the whole NLB Group.

Additionally, an internal survey in the area of ethics and compliance is carried out annually in the core members of the NLB Group. This survey is carried out to check the perception of the Bank's employees in relation to ethical conduct and compliance of operations, also in relation to the situation as regards the perception of misconduct prevention. Based on the analysis of which the Bank's Management Board is informed, measures are drafted for the improvement of the situation, such as the implementation of target inspections of the areas of operation, special training, etc. In 2018, it was found based on the survey on ethics and compliance that the culture of ethics and compliance was strengthening, therefore, the NLB Group will continue to perform the activities aimed at increasing the awareness in this area.

The implementation of the Code of Conduct in the NLB Group is also a part of regular assessment in NLB in the area of corporate identity, and one element of that is the assessment of ethical culture, the efficiency of the system of prevention of misconduct or report of suspected violations, the tone at the top, the commitment of the Bank's management, corporate identity, etc. The Code of Conduct of the NLB Group sets the standards and rules of conduct that apply to all employees, regardless of the job or location, as well as to the contractors acting on behalf of the NLB Group.

The Code defines the values and basic rules of ethical business conduct that are respected, encouraged and expected in the NLB Group. Our values and beliefs support our long-term goal which is to constantly improve the culture of our daily operations in the countries in which the NLB Group is present.

The NLB Group demands that every employee, regardless of their job or location of work, as well as every other stakeholder of the NLB Group, live in accordance with the highest standards of integrity in everything they do. The key for achieving these standards is strong culture of compliance practised by the NLB Group, with due diligence of all employees in accordance with its policies, rules and other internal acts and in line with the relevant legislation and regulations in the legal environments in which the NLB Group operates.

### **5.3. Respect for human rights as regards products and services for clients**

The aim of the NLB Group is to focus banking business on the prevention of human rights abuse by introducing business procedures that specifically define how this is done. The NLB studies and guarantees the respect for human rights in banking operations through comprehensive business processes and methodologies for risk assessment. AML regulations for the identification and monitoring of PEP are applied to relations with private customers.

The provision of financial services is also linked to human rights issues and the efforts to make a positive contribution to exercising of human rights – as a financial intermediary for economic activities in general and by offering investment opportunities that contribute to sustainable development (microfinance).

Ensuring the financing of certain products and services can lead to negative impacts on human rights; for example, the impact on the survival of local communities or infrastructure projects.

The key non-financial performance indicator is to ensure continuous attention in dealing with clients and to check if they operate under jurisdiction characterised by political instability, weak governance, suppression of minority groups, when the Bank is considering financing business activities in a conflict (war) zone, the development of financial products for vulnerable segments of clients, or when doing business with the corporate sector where the respect for human rights is known to be a problem.

All NLB Group members respect human rights. The clients are informed of all the products and services of the Bank in a transparent manner in accordance with the applicable regulations and decisions of the banking regulations agency. The Bank's range does not include products and services that could have negative impacts on human rights. The transparency of products and services and employee behaviour is in line with the Code of Conduct. The employees in banks possessing better knowledge of products and services of the Bank better manage and advise clients before selling products. This increases customer satisfaction and reliability.

The members of the NLB Group manage the risks of supervision and control of access to audit controls in accordance with the instructions and take into account the requirements of NLB. Employees in certain fields of expertise and in the area of information protection are provided training. The Code of Ethics of Employees is respected with zero tolerance for information leak. Systematic growth of sales culture is ensured through training, planning and upgrading of sales communications and management. The key indicator of performance involves determining the needs of clients for a specific product and service, which is very important for satisfaction and satisfying the needs of clients.

#### **5.4. Protecting the privacy of bank clients**

Protection of the privacy of bank clients is one of the key rules of conduct laid down in the Code of Conduct of the NLB Group. Additionally, the Corporate Security Policy of NLB defines the basic goals and principles of protecting people, facilities (business premises), information and assets of both the Bank and its clients. One of the key or fundamental goals of corporate security is to protect the data and information of our clients and thereby ensure privacy. With the implemented measures, the Bank ensures data confidentiality both as regard its own data processing and when the data are processed by contracted processors. One of the goals is also to ensure the legality of operations and the reputation of NLB. This approach is also used by individual NLB Group members.

NLB manages risks arising from possible unauthorised access to data on clients, disclosure of data on clients and lack of professionalism or inappropriate behaviour of bank employees by controlling accesses to applications with data and using audit trails, and precise methodologies, procedures and instructions for work.

The privacy of NLB clients and clients of individual NLB Group members is, following the new EU rules in the area of personal data protection (GDPR) which entered into force in 2018, ensured by implementing the relevant measures, such as:

- the "need to know" principle; in practice, this means that the employees only have the authorisation or the right to access the data and information needed to perform their regular duties;
- regular verification/checking of the adequacy of the rights granted to access data;
- regular training and raising the awareness of employees about the importance of data and information protection and ethical conduct;
- established privacy zones in the Bank's branches;
- identifying potential data protection violations by employees;
- carrying out security checks on application support and the computer network in order to identify potential vulnerabilities that would undermine the confidentiality of data and information.

## 5.5. Client complaint management system

**In accordance with the laws governing the provision of banking and financial services, NLB has in place a system of internal two-stage complaint procedure and a selected provider of out-of-court resolution of consumer disputes. The NLB provides clients with information on internal complaint procedure and out-of-court settlement of disputes which includes explanations on the method of handling client complaints.**

The NLB's objectives in handling client complaints are to quickly, efficiently and professionally resolve complaints at all stages of complaint handling, to resolve similar claims of clients in a uniform manner, to record complaints in a way that allows for substantive analysis in order to improve products, processes or other client experience (transparency, quality of handling, relationship, etc.) and to develop proposals for improvements in order to prevent the occurrence of a number of similar errors and the consequences of the client's negative experience.

The gap between the share of registered complaints and the proportion of clients expected to file a complaint decreases from one year to the next. The client's opinion is taken into account in NLB and recorded regardless of whether it is positive or negative.

The employees in the NLB respect the client's experience with individual events arising from contractual relationships and the performance of our services, and we consider claims as opportunities for improvement.

The key risks in connection with the complaint management system of NLB d.d. are:

- The risk of failure to inform clients about the internal complaint procedure and provider of out-of-court resolution of consumer disputes;
- The complaint received starts being handled late;
- Inadequate handling of the complaint;
- The client does not receive a response to a complaint or a claim for damages to the correct address.

The NLB manages risks using a model of two-stage processing of complaints. The NLB body in charge of the second stage of complaint processing is a special centralised organisational unit responsible for handling the client's objections against the decisions adopted by the body of the first instance, all special complaints and damage claims.

The share of complaints in out-of-court settlement of consumer disputes is lower than the market share of the Bank. More than half of the complaints in OADR are considered unfounded for customers.

### **Complaint management system in the NLB Group**

The NLB Group has set up an adequate system for monitoring complaints to the maximum possible benefit of bank clients according to the complaint management system.

The procedures on the conditions and handling of complaints of clients specify two levels of resolving complaints, defined by the procedure, as well as a specific method of filing client complaints, recording them, reviewing methods, deadlines for submitting a response to a complaint and sending a response to clients. The procedures also include activities to retain retail and corporate clients, offer to create a proposal for improvements and the method of reporting on received complaints.

The Bank's objectives in handling client complaints are to quickly, efficiently and professionally deal with complaints at all levels of complaint handling, in the same way addressing the same requirements of clients, submitting objections so as to allow content analysis to improve products, processes and other client experience (transparency, quality of curing, relationships, etc.), and to provide proposals for improvements in order to prevent the occurrence of a number of similar errors and the consequences of the client's negative experience.

Ombudsman was appointed at the level of the Federation of Bosnia and Herzegovina for out-of-court settlement of disputed relations. The number of complaints filed in 2016 is 36% lower compared to the number of complaints lodged in 2015, while in 2017 it is approximately at the same level as in 2016. The decision of the Banking Agency of the Federation of Bosnia and Herzegovina on the conditions and method of handling a bank complaint by the bank, a microcredit organisation and a leasing company defined the Bank's obligation to quarterly report to the Banking Agency of the Federation of Bosnia and Herzegovina (FBA) on complaints filed. Compulsory components of the report are: proof that the report was accepted by the Bank's supervisory board, and a certificate of the Bank's internal auditor that the report is complete and accurate. The Bank deals with a complaint in two stages. The second stage of handling a complaint is the Development and Sales Support Department, supporting sales offices, which is responsible for handling client complaints that are not resolved at the first instance or to whose response the client again filed an objection, as well as for solving specific complaints, damage claims and complaints from clients addressed to the Ombudsman and the management of the Bank. According to the data available from the FBA's for 2015 regarding the total number of complaints filed with the Ombudsman, the share of complaints filed against the Bank is 3%. The procedures of NLB Group on the conditions and handling of complaints are aligned with the Instructions for settling the complaint of the client of NLB.

Other banks in the NLB Group, such as NLB Banka Podgorica, deal with clients' complaints in an appropriate and effective manner, in accordance with the Banking Law of Montenegro and the Consumer Credit Act. A market survey revealed that NLB Banka AD Podgorica was the leading bank in client treatment in Montenegro. A high-quality record of all client complaints is kept using a two-stage system of recording and resolving complaints, where first-level branches and the Contact Centre are the central authority for dealing with complaints, and all organisational units of the bank deal with their resolution in accordance with the respective powers and the nature of the complaint. The procedure is accompanied by a system of automated notifications and an appropriate reporting system that will allow for better control and development of detailed reporting forms. The difference between the share of recorded claims and the share of clients filing complaints is decreasing each year. The new system of complaint handling significantly reduced the average time needed to resolve complaints and improved the complaint recording system.

The key risks of client complaint handling in the NLB Group, for which the Bank ensures proper monitoring:

- The risk of clients not being informed of the second stage of internal handling;
- The key risks of client complaint handling in the NLB Group, for which the Bank ensures proper monitoring;
- The risk of clients not being informed of the second stage of internal handling.

The complaint is not handled in due time:

- Ineffective handling of complaints;
- The client does not receive a response to a complaint or a damage claim to the correct address.

Risk management:

- The Contact Centre quarterly reports to the management of the Bank on recording and managing complaints;
- Internal and external audits are supervised;
- Recording and handling complaints.

## 6. Promoting freedom of expression on Internet and elsewhere

Freedom of expression is one of the fundamental human rights that NLB strongly encourages – both among the employees and in relations with our clients and other stakeholders, both on digital platforms and in personal communication.

Intranet NLB (NLB Net) thus enables publication of information and news about the developments concerning the Bank and in the Bank, commenting, asking questions, liking and giving ideas and making proposals, to which a special web page, “City of Ideas” (Mesto idej), is dedicated. Each organisational unit has its own Intranet web page, on which the employees actively cooperate in the designing of the contents and respond to them. Two-way communication is strictly encouraged, and it is taken care that questions are responded by relevant answers. There is also a special web page for the Trade Union and the Workers' Council, which actively organise the web page and participate in the communication by making comments. In 2018 we continued with live stream addresses by the president of the Management Board, a form of open communication named the Open House of President of the Management Board. It is a live stream, during which the President of the Management Board briefly summarises the current events in the Bank, and then answers questions that are posted by employees either through NLB Net or through the e-mail address created specifically for this purpose.

NLB d.d. encourages clients to send their opinion on their experience with the Bank, which they can do through several channels: by e-mail, via the website and social networks (in 2018, Facebook was added by Instagram), as well as directly by a call of video call to the NLB Contact Centre, and in area branches and branch offices.

### **Results of policies and internal or external rules, instructions or regulations (findings reached by the Bank on the basis of monitoring the implementation)**

We find that the number of comments under the publications on the NLB Net is increasing, as well as the cooperation of employees in different prize games and surveys, in which they are asked about their opinion on the banking services or events in the Bank.

### **Main risks in relation to the above stated issues related to activities of the company, including its business relations, products or services, when this is appropriate and proportionate, which might cause serious detrimental effects, and the methods employed by the company to manage these risks**

There is a risk of internal information leakage, but it is actively managed in such way that internal communication, which is always prior to external, is followed by prompt external communication, and in the case of price-sensitive information, there are strict instructions (Rules on the Supervision over the Implementation of Personal Transactions in the Provision of Investment Services and Transactions in NLB d.d.), which are in compliance with the regulations and best practice in this area. The employees are also constantly reminded of the importance of handling internal information with caution by being provided regular news and obligatory training.

### **Key non-financial performance indicators relevant to individual activities**

The employees are satisfied with the possibility of expressing their views and comments, since open communication contributes to a better atmosphere, trust and openness.

### **Promoting freedom of expression in the NLB Group**

In 2017 all members of the NLB Group established their NLB Net following the example of NLB, NLB Net. Thus, comments and questions can be expressed in all members of the NLB Group. In addition, a common platform of the NLB Group – NLB Group Net was established in 2017, featuring the most topical news from all markets where the NLB Group operates. Freedom of comment and thus freedom of expression is provided on this platform as well.

The NLB Group members also encourage their clients to give their opinion on their experience with the bank through channels and in the way as described above.

## **7. Issues related to the fight against corruption and bribery**

The NLB Group already emphasised the awareness of the significance of fight against corruption and bribery in the Code of Conduct of the NLB Group, which prescribes that the NLB Group has zero tolerance to such misconduct. All forms of bribery and corruption must be rejected in NLB and the NLB Group. These forms of action are unfair, illegal and damage the countries in which the corruptive practices take place, and the society in general. We are bound to do so by the Code of Conduct of the NLB Group published on NLB website. NLB and the NLB Group expect the same from our clients, business partners and third parties. Therefore, all employees of the NLB Group are subject to limitations in giving and accepting gifts, offering hospitality and otherwise influencing the conduct of the employees of the NLB Group. Specific measures for managing the risks associated therewith are also prescribed. They are laid down in the Policy on Conflict of Interest Management and Corruption Prevention of NLB and the NLB Group.

In accordance with the Corporate Governance Policy of the NLB Group, the Standards for Compliance and Integrity also define obligations of the NLB Group members to adopt all internal acts of NLB on the prevention of corruption and conflicts of interest, and to comply with their obligations.

In 2018, the NLB Group members implemented the new Policy on Conflict of Interest Management and Corruption Prevention of NLB and the NLB Group, which, due to clearer rules, additional awareness raising, established control mechanisms and training in this field, represents a significant improvement in the implementation of respective activities.

Due to its regional presence, the NLB Group is exposed to the risks of corruption in South-Eastern Europe. In the scope of the SOTIS/ECRA process (General assessment of integrity and compliance risks/Enterprise Compliance and integrity Risk Assessment), which the NLB Group carries out annually, the assessment of the corruption risk at the level of NLB, at the level of the core NLB Group members and at the level of the whole NLB Group is also carried out. A special questionnaire is used for that purpose (model World Economic Forum: Good Practice Guidelines on Conducting Third-Party Due Diligence, Partnering Against Corruption Initiative - PACI).

Based on the SOTIS/ECRA assessments made, in 2018 the NLB Group did not detect any significant new risk in the area of fight against corruption and bribery. Nevertheless, in the scope of their regular tasks, the compliance functions performed activities aimed at raising awareness and improving the risk culture also in relation to this area. Moreover, the approach to the management of such risks in daily operations was also enhanced, for instance by implementing the assessment of such risks in relations with suppliers.

In the scope of fight against corruption and bribery, the NLB Group performs several activities to manage the related risks.

In 2018, regular annual training was organised for all employees and management in NLB and the NLB Group members in the field of corruption and conflicts of interest. Specific targeted training was also organised for target employee groups (sales network, managers, new employees) in the field of harmful practices, channels available for reporting suspected misconduct, corruption, conflicts of interests and breaches of the Code of Conduct of the NLB Group. The risk arising from conflicts of interest and corruption is assessed for outsourced providers and suppliers and other contractual partners of NLB and the NLB Group. The necessary procedures and mechanisms for treating suspected misconduct and adopting corrective measures in the case of suspected misconduct have been established. For appropriate identification of such events, various channels are used for reporting suspected misconduct, published on the Intranet (NLB Net), in internal documents (including the Code of Conduct of the NLB Group), and the internally and publicly accessible Whistler application for reporting suspected misconduct (also enabling anonymous reporting).

NLB and the NLB Group have implemented the planned measures to protect the informants (internal and external), and defined who adopts them and in what way, and how the protection of informants is ensured.

Ljubljana, 26.3.2019

### NLB Supervisory Board

**Primož Karpe**  
Chairmen of Supervisory Board



### NLB Management Board

**László Pelle**  
Member of the  
Management  
Board



**Archibald Kremser**  
Member of the  
Management  
Board



**Andreas Burkhardt**  
Member of the  
Management  
Board



**Blaž Brodnjak**  
President of the  
Management  
Board

