



NLB Group

Sustainability Framework

refers to NLB d.d. and members of the NLB Group

September 2021

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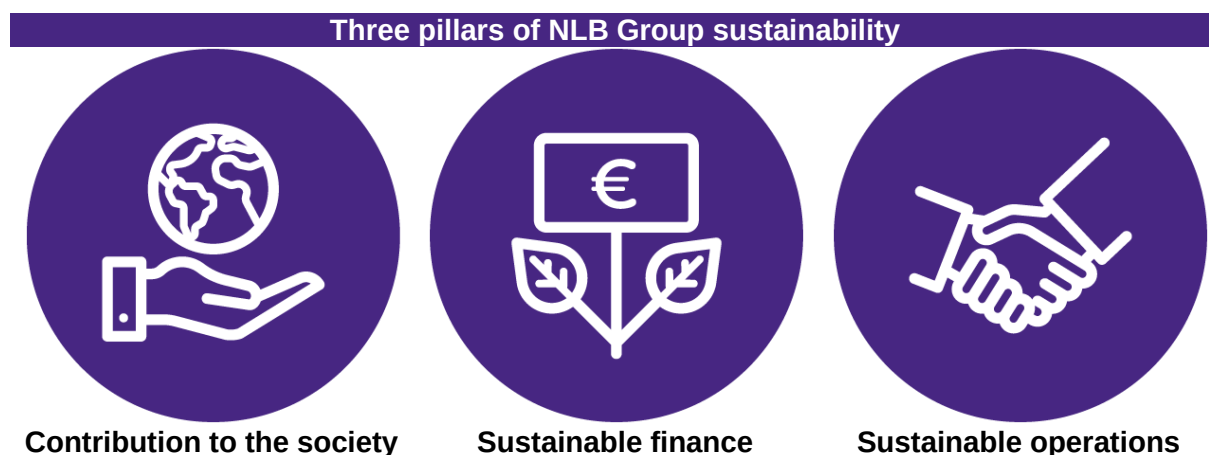
1. CORPORATE SUSTAINABILITY STRATEGY

In 2020, the NLB Group embarked on a path of more intensive integration of sustainability into banking operations. If until that year it was possible to detect the activities of banks in the Slovenian financial sector in the direction of more ecologically and socially acceptable operations, the Covid-19 pandemic strengthened banking agendas related to climate, environmental and social risk management, and thus more comprehensive implementation of the sustainability-related elements.

With the adoption of the NLB Group sustainability programme at the end of 2020, the NLB Group has moved from the raising awareness phase to the phase of actively implementing sustainability elements into the business model. The goal of this strategic, organisation-wide initiative is to ensure sustainable financial performance of the bank by considering social and environmental risks and opportunities in its operations, and to actively contribute to a more balanced and inclusive economic and social system.

1.1. Three pillars of NLB Group sustainability

In implementing sustainability elements, the NLB Group is very much focused on the local communities and economy. The bank is conscious of the impact of its operations on society and responds to societal needs and expectations in a balanced, relevant, and transparent manner. In doing so, the bank acknowledges a special approach in each of the local economies of the core markets in which it operates.



Pillar #1: Contribution to the society

The NLB Group contributes towards wider socio-economic development through its [Corporate Social Responsibility \(CSR\)](#)¹ activities and is responsible to its clients, employees, and the social environment. The NLB Group 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, support to professional and youth sports, humanitarian activities and protection of cultural heritage.

Pillar #2: Sustainable finance

Sustainable finance integrates environmental, social, and governance (ESG) criteria into our business and investment decisions for the lasting benefit of our clients and society. Embedding sustainability practices within our lending, investments, products, and services, is the most significant way to support our national and global sustainable development goals. Moreover, it enables us to manage risks to our own financial performance and profit from business opportunities emerging from the transition to a low-carbon, more inclusive, and circular economy.

¹ NLB Group Corporate Social Responsibility Policy: <https://www.nlb.si/nlb-group-corporate-social-responsibility-policy.pdf>.

Pillar #3: Sustainable operations

'Sustainable operations' refer to managing our direct environmental and social impacts, and ensuring we operate ethically and efficiently. Our aim to improve sustainable operations is accomplished through measurement, management, and reporting performance in alignment with the relevant EU regulation and United Nations Environmental Programme Finance Initiative (UNEP FI)² as well as our own internal targets aiming to improve our environmental footprint.

2. NLB GROUP VISION AND MISSION

**With our minds focused on future of this region,
we are committed to creating a better life
for present and future generations.
Because this region is not just a spot on the map.
This region is our home.**



We are convinced that our strategy – powered by our business culture and the contributions made by our people – is instrumental in earning, keeping and growing trust day by day and therefore in helping us become the reference in our core markets. We focus on the NLB Group's long-term development and aim in that way to achieve sustainable and profitable growth. We take our responsibility towards society and local economies very seriously and fully understand that we can only provide a positive impact if we do banking in a way that serves the **United Nations Sustainable Development Goals (UN SDG)**³.

VISION:

The NLB Group will take care of the financial needs of its clients and improve the quality of life in its home region.

MISSION:

The NLB Group values and understands its home region and strives to improve and develop it for all generations.

OUR STRATEGIC FOCUS:

- **Become regional champion**

The NLB Group aims to further strengthen its role as a systemically important financial institution in SEE region and strives to become a market leader in all its core markets.

- **Putting clients first**

We place our clients at the centre of everything we do. One of the key efforts is improved availability and inclusiveness for all clients. The NLB Group has made itself available anywhere and anytime by building a strong customer centre and upgrading its portfolio of digital sales channels.

- **Defend our market position**

The NLB Group is working to protect and strengthen its market position as a systemic player in its home region. It also works to actively participate in the expected growth and consolidation of the market, while focusing on increasing profitability through a more customer-centric approach and digitalization.

² <https://www.unepfi.org/>.

³ <https://sdgs.un.org/goals>.

- **Exploit opportunities and synergies**

Significant strategic business efforts are undertaken to achieve business synergies across the NLB Group, both in costs and operational efficiency. The NLB Group believes these can help offset significant negative economic effects of the COVID-19 pandemic on the NLB Group's future business results. The NLB Group is pursuing growth through entering/expanding its presence into selected agencies (e.g., leasing, bancassurance) and diversifying its services on a horizontal level.

OUR PEOPLE:

Our employees represent our human capital and are one of the main drivers to creating value as a bank. By focusing on recruitment, management, and development of our employees, we seek to give them the opportunity to thrive by making the most of their talent and experiences and adapt to our fast-changing world. We encourage all our employees to act in a responsive, respectful and result driven manner. It is our ambition to truly involve the whole organization in realising our sustainability ambitions.

For more details on our approach, please visit the <https://www.nlb.si/taking-good-care-of-employees>.

STAKEHOLDER ENGAGEMENT:

We regularly engage with all our stakeholders in defining what is material to both, our stakeholders and the NLB, and how we can create value. We use a variety of communication channels for an open and transparent dialogue in sustainability related issues. Some of the most important channels for communication with our stakeholders include the NLB Group Sustainability Report, the Annual Report, the CSR and Sustainability e-mail box, the corporate website, and any other channels suitable for this purpose.

For more information on stakeholder engagement at the NLB Group, please visit www.nlb.si.

2.1. Sustainability imbedded in our business model

NLB Group embraces definition of sustainable development as **“development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations General Assembly, 1987)**. This concept of sustainable development aims to maintain economic advancement and progress while protecting the long-term value of the environment; it “provides a framework for the integration of environment policies and development strategies” (United Nations General Assembly, 1987). We nurture the desire to grow without harming future generations.

Our sustainability ambition is anchored in our mission. It is an opportunity to help businesses not only survive but also to take initiative and position themselves for future growth. Sustainability is at the centre of our business model and a pillar for the transformation of the NLB Group.

Having decided to pursue this purpose, we are now working to grow sustainable business development plan across the whole NLB Group. This has been a **top-down approach** to harmonize the external and internal standards and metrics, for example, align lending portfolios with the **Paris agreement**.

Sustainability to us means that we can respond to the expectations of all involved **stakeholders**, not only today but also in the future. The basic condition for sustainability is **financial resilience** and vice-versa. Only by focusing on **long-term sustained financial performance** and **strict risk management**, we can honour all our commitments without external support. We firmly believe that there need not be a trade-off between environmental sustainability and economic development. On the contrary, sustainability can drive the economic development.

2.2. Increasing our positive impact

Sustainability is not just about philanthropy and supporting local initiatives with sponsorship. Although these aspects continue to have great importance for the NLB Group in its various home markets, its corporate sustainability strategy seeks to go beyond this approach and create added value by:

- **focusing on genuine societal needs, and**
- **actively responding to these societal needs by developing adequate business solutions.**

Based on these criteria and considering the local context of our different home markets, the following sustainability-focus domains have been defined on the NLB Group level:

Environmental responsibility

We continue to reduce our own environmental footprint and create a variety of initiatives and targets to achieve that. Environmental responsibility for us also means taking further decisive steps to develop business solutions that have a positive impact on the environment.

Stimulating entrepreneurship

We are committed to entrepreneurship, innovative thinking, and economic growth. We understand that by supporting innovative ideas and projects, we can contribute to economic growth, which is one of our fundamental objectives.

Over the entire development process, new, innovative business solutions are and will be checked against the Sustainability Framework, which allows us to launch sustainable products and services that meet clients' needs.

Initiatives were already launched and NLB Group will continue working on other business solutions that contribute positively to these societal challenges. For specific examples, please refer to www.nlb.si.

Financial literacy and financial inclusion

- **Financial advice:** helping clients make the right choices through good and transparent advice, and clear communication.
- **Financial behaviour:** using analysis to understand and respond to client behaviour more effectively.
- **Financial education:** raising citizens' understanding of financial concepts and products. And that also means young people, since tomorrow's financial consumers should be able to make carefully thought-out choices.
- **Financial inclusion:** developing financial products and services that promote the financial inclusion of all citizens.

Building partnerships

We are committed to developing partnerships for a more advanced, innovative, and stimulating environment in the markets in which we operate. In 2020, we entered some very important partnerships to accelerate our implementation of sustainability. NLB is the first Slovenian bank that became a member of the CER (Centre of Energy Efficient Solutions) institute, which is Slovenia's most important and renowned network of technologically advanced and innovative companies, and which play a leading role in promoting and developing climate neutral economy and using green technologies in achieving this.

Addressing decent employment, diversity, and gender equality

NLB Group is committed to decent employment practices and promotes equal opportunities by constant upgrade and implementation of the best-in-class human resources policies.

2.3. Limiting our adverse impact

Generating sustainable, profitable growth and contributing to a more sustainable society go hand in hand. This means that, as a bank, we also seek to limit our adverse impact on society as much as feasible. We want to achieve this ambition by:

- **Reducing our own environmental footprint.**
- **Developing and applying the Environmental and Social Management System with its main goal to manage climate-related and environmental risks of the Group.**

Reducing our own environmental footprint

Environmental responsibility is one of the selected domains the NLB Group wants to focus on in playing its role in society. Since climate change is one of the most threatening global challenges in the 21st century, our main objective is to contribute to the transition to a low-carbon economy and society.

We are aware of our impact directly through our operations and indirectly through our businesses. To limit our direct and indirect impact on global warming, we have started a group-wide programme:

- to reduce our own environmental footprint,
- to develop a set of NLB Group sustainability policies,
- to leverage the transition to a low-carbon economy by taking initiatives in our various core business lines.

Our **direct environmental footprint** is addressed predominantly through several Group-wide initiatives:

- energy consumption and emissions,
- water consumption,
- paper consumption,
- waste and recycling,
- fleet and buildings management,
- organizational health and safety.
- digitalisation, etc.

Our **indirect environmental footprint** is addressed through lending and investing activities:

- restraining from coal-related business,
- financing activities and projects related to the low-carbon and circular economy.

3. COMMITMENT TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

In September 2015, the United Nations (UN) member states agreed the **Sustainable Development Goals (SDGs), a universal set of goals, targets, and indicators, which define global sustainable development priorities and aspirations for 2030**. The SDGs call for worldwide action by government, business, and civil society to end poverty, protect the planet and ensure prosperity for all.

Business has an important role to play in addressing the sustainable development challenges, alongside action and cooperation by all the other actors in society. The SDGs encourage companies to reduce their negative impact while enhancing their positive contribution to the sustainable development agenda.

The 17 UN SDGs:



As a financial institution, we are an important driving force for the real economy and therefore have an important impact on the SDGs. By contributing to the economic well-being of companies, private individuals, and governments, we can increase their ability to achieve better social outcomes. Moreover, through our lending, investing, bancassurance, leasing and asset management activities, we can direct the social and environmental influence of our operations.

Although the 17 SDGs are all interconnected and relevant, we have identified several high-impact areas where we believe NLB Group can contribute most positively as a bank to the implementation of the SDGs and minimize the negative impact we might have on them.

3.1. NLB Group focus on UN's Sustainable Development Goals

We have aligned our sustainability approach with the UN's Sustainable Development Goals:



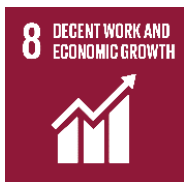
SDG 3 - Ensure healthy lives and promote well-being for all at all ages

We develop banking products that focus on improving quality of life in general. Our social projects also focus on themes like health and well-being. We promote a good work-life balance among our employees.⁴



SDG 7 - Ensure access to affordable, reliable, sustainable, and modern energy for all

We invest in initiatives in the field of renewable energy and energy efficiency through our banking activities and are developing a programme for the financing of sustainable energy solutions.



SDG 8 - Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all

Our banking business supports entrepreneurship and job creation and contributes to sustainable economic growth. We support new businesses and invest in innovation and technology. We play an important role in protecting labour rights, fair pay, equal opportunities and training and development opportunities for all our employees.



SDG 12 - Ensure sustainable consumption and production

We support the transition to a low-carbon and circular economy. We develop sustainable banking products and services that meet a range of social and environmental challenges. We endeavour to mitigate our own negative impact on the environment by dealing sustainably with energy, paper, water, mobility, and waste and by reducing our greenhouse gas emissions.



SDG 13 - Take urgent action to combat climate change and its impacts

We apply strict environmental policies to our loan and investment portfolios. We develop business solutions that help clients reduce their greenhouse gas emissions and make the transition to a low-carbon economy. We limit our own environmental impact and communicate on that. We seek to address climate-related risks and focus on related opportunities in that area.

3.2. Commitment to the United Nations Principles for Responsible Banking

In September 2020, NLB d.d. became the first bank from Slovenia to commit to the **UN Principles for Responsible Banking** (UN PRB) – a single framework for a sustainable banking industry developed through an innovative partnership between banks worldwide and **United Nations Environment Programme Finance Initiative** (UNEP FI).

The Principles for Responsible Banking set out the banking industry's role and responsibility in shaping a sustainable future and in aligning the banking sector with the objectives of the **UN SDGs and the 2015 Paris Climate Agreement**.

They enable a bank to embed sustainability across all its business areas, and to identify where it has the potential to make the most impact in its contributions to a sustainable world. They also, importantly

⁴ For more information how the NLB Group promotes health and wellbeing of its employees, please refer to www.nlb.si.

position a bank to leverage new business opportunities with the emergence of the sustainable development economy.

As a signatory bank NLB d.d. commits to taking three key steps which enables us to continuously improve our impact and contribution to society:

- I. Analyse its current impact on people and planet.
- II. Based on this analysis, set targets where it has the most significant impact, and implement them.
- III. Publicly report on progress.

UN Principles for Responsible Banking:

 Principle 1: Alignment We will align our business strategy to be consistent with and contribute to individuals’ needs and society’s goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.	 Principle 2: Impact & Target Setting We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.	 Principle 3: Clients & Customers We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.
 Principle 4: Stakeholders We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society’s goals.	 Principle 5: Governance & Culture We will implement our commitment to these Principles through effective governance and culture of responsible banking.	 Principle 6: Transparency & Accountability We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society’s goals.

Eighteen months after signing, signatory banks must report on their impact, how they are implementing the Principles, the targets they have set and the progress they have made. The NLB d.d. will fully implement all 6 principles and therefore required steps regarding impact analysis, target setting & implementation and accountability within maximum 4 years (until Sept. 2024).

4. SUSTAINABLE ECONOMIC ACTIVITIES PROMOTED BY THE NLB GROUP

The NLB Group strongly supports the transition to a low-carbon, more resource-efficient and sustainable economy and is committed to make a positive contribution to the financial system that supports sustainable growth. In the NLB Group **sustainable finance** is understood as finance that support economic growth while reducing pressures on the environment and considering social and governance

aspects as well. The NLB Group is committed to supporting financial products and services that pursue and contribute to environmental and social prosperity.

The outline of **sustainable economic activities (picture below)** which the NLB Group promotes, but is not limited thereto, provides a reference point in internal evaluation processes, and helps addressing adequate environmental and social objectives. The list will continue to evolve over time reflecting changing community's expectations, stakeholders' feedback, and regulatory requirements. Regarding transaction approval, the NLB Group has implemented an extensive environmental and social **financing exclusion list in its Lending Policy**⁵ and must strictly adhere to it. NLB Group financing exclusion list defines the types of activities and projects that NLB Group does not finance. For more information, please check the following chapter.

SUSTAINABLE ECONOMIC ACTIVITIES PROMOTED BY THE NLB GROUP



RENEWABLE ENERGY	ENERGY EFFICIENCY	SUSTAINABLE TRANSPORT	POLLUTION CONTROL AND RECYCLING
- substantial contribution to reducing GHG emissions amongst others: renewable energy generation, energy and heat efficiency, smart management systems, including the use of Internet of Things (IoT) - sustainable mobility and innovative transport methods - development of technology and infrastructure required for higher and more efficient penetration of renewable energy resources - sustainably sourced renewable materials - processes and infrastructure that facilitate recycling of natural resources and waste			

SUSTAINABLE AGRICULTURE AND FOOD PRODUCTION	SUSTAINABLE FORESTRY	SUSTAINABLE AQUACULTURE AND FISHERIES	SUSTAINABLE WATER MANAGEMENT
- responsible and sustainable sourcing and forest management activities - reduction of methane or other GHG emissions by supporting sustainable management of livestock - development of low-carbon agricultural technologies that improve productivity and efficiency - sustainable management of living natural resources and land use - development of technologies that facilitate maximum use of waste, recycling and separation of materials - improvements in drinking water management and distribution, sanitation, wastewater management and water recycling			

⁵ The purpose of the NLB Group Lending Policy is to define the principles for approving balance and off-balance transactions in terms of client creditworthiness, portfolio diversification, industry, type of investments and target markets. Its aim is also specification of some other terms of lending that reflect the risk appetite of NLB d.d. and the core members of the NLB Group. It follows the key substantive guidelines about risk appetite defined in the NLB Group Risk Strategy.

CIRCULAR ECONOMY	ECONOMIC AND SOCIAL INCLUSION	AFFORDABLE HOUSING AND BASIC INFRASTRUCTURE	HEALTH AND EDUCATION
• transitioning to circular economy by supporting increase of durability, reparability, and reusability of products as well as reduction of the use of resources through the design and smart choice of materials • process and product innovation and supporting development of sharing business models • achieving GHG reduction through improvements in supply chains • use of information and communications technology solutions (digitalization) for purpose of collecting, transmitting, storing, and using data to facilitate GHG emission reductions • supporting education and health facilities and programs			

Please note that this is only an indicative list of promoted sustainable economic activities that will be regularly updated in the future. When approving a transaction, the NLB Group strictly follows its Lending Policy and other relevant internal documents that cover the area of financing.

5. NLB GROUP ESG RISK MANAGEMENT

Managing risks and capital efficiently at all levels is crucial for the NLB Group to sustain long-term profitable operations. ESG-related risks do not represent a new risk category, but rather an aggravating factor for the types of risks already managed through the established risk management framework.

Banks are exposed to climate change through macroeconomic and microeconomic transmission channels arising from two separate types of climate risk factors:

First, they may suffer costs and financial losses because of deteriorating **physical risk** factors.

Second, when companies strive to reduce carbon dioxide emissions, which account for most greenhouse gas emissions, these efforts create **transition risks**. These are caused by changes in government policies, technological developments or investor and consumer confidence.

The effects of climate risk factors on the bank's operations are monitored through traditional risk categories (credit risk, market risk, liquidity risk, operational risk, reputation risk).

NLB Group addresses the ESG risk management on three levels:

TRANSFORMATIONAL

STRATEGIC LEVEL

- Contribute to broad-based discussions of best practices regarding E&S risk management in key areas.

TRANSITIONAL

PORTFOLIO LEVEL

- Portfolio level reviews to understand aggregate E&S risk exposure, and comply with reporting requirements.

TRANSACTIONAL

CLIENT & TRANSACTION LEVEL

- Client and Transaction level reviews assessing client's commitment, capacity and track record to manage E&S risks and engage clients to address potential improvements.

The NLB Group is engaged in contributing to sustainable finance by incorporating environmental, social and governance risks into its business strategies, risk management framework and internal governance. Thus, the management of ESG risks follows **the European Central Bank and the European Banking Authority guidelines** and they are comprehensively integrated into all relevant processes.

Respectively, the management of the ESG risks represents an integral part of the Group's overall credit approval process and is more comprehensively embedded in the risk management on portfolio level. Corresponding stress test scenarios will serve for the impact assessment of ESG risks on the Group's capital and liquidity position on the short, medium, and long-term view. Key risk indicators and internal capital allocation will be addressed in accordance with the revised business strategy.

5.1. Establishing the NLB Group Environmental and Social Management System

In recent years, the NLB Group signed agreements with the **European Bank for Reconstruction and Development (EBRD)** and with the **Multilateral Investment Guarantee Agency (MIGA)**, which bring contractual obligations to the NLB Group related to the implementation of sustainability requirements. These requirements provide guidance on how to identify environmental and social risks and impacts. They are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder's engagement and disclosure obligations of the client in relation to project-level activities.

What is more, important international financial institutions such as EBRD and MIGA encourage the NLB Group to set up the so-called **Environmental and Social Management System (ESMS)**. The ESMS represents one of the most important and comprehensive steps in integrating sustainability into banking operations.

What is an ESMS?

An Environmental and Social Management System (ESMS) is a set of policies, procedures, tools, and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its clients/investees.

In 2021, we began the intensive development of the NLB Group's ESMS. Significant changes in the lending process of the NLB Group are one of the most important consequences of the introduction of the ESMS.

5.2. NLB Group Lending Policy

The purpose of the **NLB Group Lending Policy** is to define the principles for approving balance and off-balance transactions in terms of client creditworthiness, portfolio diversification, industry, type of investments and target markets. Its aim is also specification of some other terms of lending that reflect the risk appetite of NLB d.d. and the core members of the NLB Group. It follows the key substantive guidelines about risk appetite defined in the NLB Group Risk Strategy.

In the NLB Group Lending Policy a special chapter is devoted to addressing the economic activities with categories such as **prohibited, restricted and normal activities**. The NLB Group Lending Policy was upgraded with the **Exclusion List from EBRD Environmental and Social Policy (2014) and MIGA Environmental and Social Exclusion List (signed with NLB Group members)** which the bank must strictly adhere to.

PROHIBITED ACTIVITIES (Cross Sectoral)

NLB Group will not knowingly finance to any of the following activities:

- the production of or trade in any product or activity deemed **illegal** under national laws or regulations, or international conventions and agreements, or subject to **international phase out bans**, such as:
 - production of or trade in products containing PCBs
 - production of or trade in pharmaceuticals, pesticides/herbicides, and other hazardous substances subject to international phase-outs or bans
 - production of or trade in ozone depleting substances subject to international phase out
 - trade in wildlife or production of or trade in wildlife products regulated under CITES

- transboundary movements of waste prohibited under international law

PROHIBITED ACTIVITIES (Sector Specific)

NLB d.d. with NLB Lease & Go and NLB Group banking members¹⁾ will not knowingly finance to any of the following activities:

- **(NLB Group banking members¹⁾) Activities in the nuclear fuel production cycle** (uranium mining, production, enrichment, storage or transport of nuclear fuels) and production of or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- **(NLB Group banking members¹⁾) Production of or trade in weapons and munitions.**
- **NLB d.d.** will not be involved in financing development, manufacture, trade or distribution of nuclear, biological, and chemical weapons, anti-personnel mines and cluster munitions, ammunition containing depleted uranium.
- **(NLB Group banking members¹⁾) Production of or trade in alcoholic beverages** (excluding beer and wine). ²⁾
- **(NLB Group banking members¹⁾) Production of or trade in tobacco.**²⁾
- **(NLB Group banking members¹⁾) Gambling, casinos, and equivalent enterprises.** ²⁾
- Production or use of or trade in unbonded asbestos fibers or asbestos-containing products.
- Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.
- **(NLB Group banking members¹⁾) Commercial logging** operations for use in primary tropical moist forest. ²⁾
- **(NLB Group banking members¹⁾) Production of or trade in wood or other forestry products** other than from sustainably managed forests. ²⁾
- Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit.
- **Drift net fishing** in the marine environment using nets **more than 2.5 km in length.**
- Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.
- Production or activities involving harmful or exploitative forms of **forced labor / harmful child labor.**
- **Coal:** NLB Group will not provide any new financing to thermal coal mining or coal-fired electricity generation capacity in any way, including eventual transitional enhancements.
- **Political parties** NLB Group will not provide financing.

¹⁾ NLB Group banking members (banking subsidiaries of NLB Group that signed Contract of Guarantee for Equity Investments with Multilateral Investment Guarantee Agency (MIGA)).

²⁾ NLB Group banking members will respect agreed thresholds with MIGA for financing Production of or trade in alcoholic beverages, Production of or trade in tobacco, Gambling, casinos and equivalent enterprises, Production of or trade in wood or other forestry products other than from sustainably managed forests.

When financing micro-finance activities NLB Group banking members¹⁾ will also apply the following additional exclusions:

- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.

- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous People, without full documented consent of such people.

6. NLB GROUP SUSTAINABILITY GOVERNANCE STRUCTURE

Our path to sustainable banking started by internal decision and only later we embarked on regulated targets with MIGA, EBRD and UN PRB. We have anchored sustainability at different levels within the bank (Board level, Executive Management level, Group level and Business & Country level), guaranteeing that it receives attention from the highest decision-making bodies while also being broadly integrated in our operations.

NLB Group has put in place a 4-level sustainability governance:

A. Supervisory Board

The bank has established a comprehensive framework for sustainable management, starting by sponsoring the matter at the level of the NLB d.d. Supervisory Board, which, due to its diverse knowledge and extensive experience, significantly contributes to the implementation of sustainability. The implementation of sustainability is addressed formally at least twice a year. However, due to the growing importance of the topic, the Supervisory Board regularly monitors the implementation of ESG factors and discusses the topic at almost every meeting and devotes an important part of its agenda to it.

B. Sustainability Committee

Sustainability Committee at the level of NLB d.d. is composed of the highest-level officers and provides the overall vision and sustainability strategy, it defines key policies, reviews progress on major initiatives, decides on specific external partnerships and agreements, and ensures cohesion of the overall program with the bank's mission. The key decision progress is brought to the attention of the NLB d.d. Management Board, both at regular and on ad hoc basis whenever required.

C. Group level Sustainability Team

Sustainability Team within Strategy and Business Development Division of the NLB d.d. oversees Group-wide sustainability agenda and it is tasked with (I) driving the culture, (II) coordinating initiatives, (III) measuring the impact and (IV) reporting on progress.

The team is responsible also for developing the sustainability strategy and implementing it across the NLB Group. The team monitors implementation of the strategy and regularly informs the Sustainability Committee, Management Board and Supervisory Board on progress. The Sustainability Team is headed up by the Strategy and Business Development Executive Manager and reports directly to the NLB d.d. CEO.

D. Sustainability working groups (ESMS Officers, ESMS Specialists etc.)

Ad hoc working groups are being set up in the bank to introduce various elements of sustainability. Their composition varies according to the area of sustainability considered.

ESMS Officers have been appointed in our banking members and report regularly to local boards. They come from within the risk management line and ensure the ESMS is properly implemented organization wide.

7. RESPONSIBLE BANKING AND BUSINESS ETHICS

When carrying out our activities, we respect applicable laws and regulations and impose strict rules on ourselves in terms of ethical behaviour, integrity, transparency, confidentiality, and privacy.

7.1. Responsible banking

Responsible banking is the basic layer of sustainability at the NLB Group. To maintain and grow trust, it is of utmost importance that we behave responsibly in everything we do, at all layers of the organisation. The NLB Group therefore considers responsible behaviour as necessary to successfully implement an effective and credible sustainability strategy. This means that the mindset of all NLB-staff should go beyond regulation and compliance. As client centricity lies at the heart of our corporate strategy, we also focus on responsible selling and providing responsible advice.

The foundation of responsible banking is **integrity**, which entails honesty, correctness, transparency, and confidentiality, combined with a sound risk awareness.

7.2. Business ethics

We offer our banking services based on sound company values. In all our activities, we comply with all relevant rules and regulations, and with corporate policies and guidelines that require ethical behaviour of our staff as well as doing ethical business daily. All policies are reviewed on a regular basis and updated if necessary, to always meet the changing environment, requirements, and regulations.

The Compliance and Integrity unit as second level control function oversees business practices, identifies risks related to compliance, ethics and integrity and proposes mitigation measures so that ethics and integrity requirements are respected, and that information security and data privacy are upheld as required in laws, regulations, and corporate policies.

NLB Group is aware that ensuring the long-term successful operation of banks, it is not enough just to comply with applicable laws and regulations, which represent the legal framework within which the bank operates. Banking must also consider its sustainable development responsibility, which always requires appropriate ethics and integrity standards to be met. **Framework for the business ethics is laid down in NLB Group Code of Conduct** (public: <https://www.nlb.si/code-of-conduct>, internal: <http://nlbnet/code-of-conduct>).

In NLB Group, we have zero tolerance policy for:

- money laundering and terrorist financing,
- internal crime,
- violations in personal data and other confidential information protection, resulting in the leaking of confidential information or disclosure of confidential information to unauthorised persons,
- abuse of the market in financial instruments, and
- other violations representing conduct harming the bank, incl. all forms of bribery and corruption.

In Ljubljana, September 2021

Matej Podlesnik
Strategy and Business Development
authorised by the Management Board