

**REPORT ON SUSTAINABLE
DEVELOPMENT AND SOCIAL
RESPONSIBILITY 2017**



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DEVELOPMENT OF RESPONSIBILITY IS CRUCIAL FOR IMPROVEMENTS

For the Nova KBM Group, 2017 was a year of fundamental changes, bringing us positive effects in the long run. Our signposts on this path are the new Strategy and Policy on Sustainable Development and Corporate Social Responsibility, giving us additional impetus in the implementation of the ambitious vision to become the best bank by 2020. We are aware that sustainable development and social responsibility are becoming increasingly important generators of continuous progress, as they strengthen the value of trust, which is fundamental and inclusive in banking. However, the trust could be strengthened if it is combined with other values. One of them is the responsibility that starts in each of us and is very important in the Bank. Just as open communication and feedback are important for developing responsibilities among individuals, they are important also for the Bank as an organisation. In this area, we have made visible steps to more open and inclusive communication by implementing various programmes. Therefore, Nova KBM uses such communication in developing relationships with its key stakeholders and keeps fair relations with them. We are aware that what is not measured cannot be evaluated. Therefore, our performance in the area of sustainability is measured by indicators based on the GRI methodology. By doing so, we have gained leverage to manage this area in a long run and to support the role of the Bank in sustainable transformation of its environment.

Our achievements in the area of sustainable growth and social responsibility in 2017, and our future orientations are disclosed in this report, which is published in a separate document for the first time. It focuses on sustainable corporate governance, sustainable relationships with employees, customers, suppliers, and the nature. By disclosing them, we want to help our readers to understand relevant areas of the development, performance and position of the Bank, together with the impact of its activities. We will strive to create the bank with a clear direction and effective corporate governance, which focuses on its customers and employees and sustainable care for their well-being.

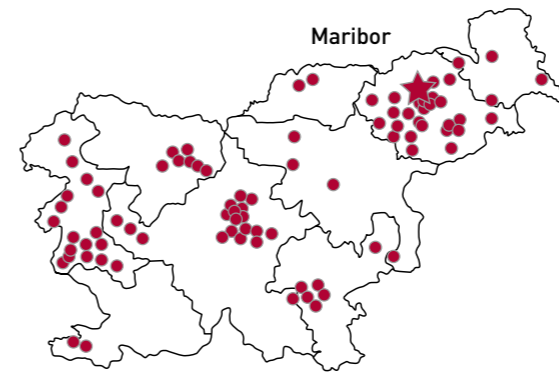
John Denhof,
President of the Management Board

AT A GLANCE

Name of the Parent Bank Nova Kreditna banka Maribor d.d.
Short name of the Bank Nova KBM d.d.
Registered office Ulica Vita Kraigherja 4, 2000 Maribor
Website www.nkbm.si
E-mail info@nkbm.si
Skype NovaKBM
Switchboard 00386 2 229 22 90

BASIC INFORMATION

3.1 / HIGHLIGHTS



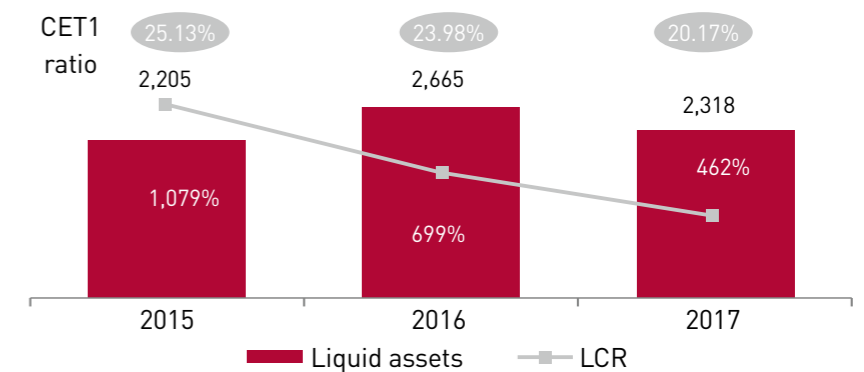
Leading banking franchise in a growing macro-economic environment

Most extensive distribution network in Slovenia, including 60 Nova KBM branches and 500 Slovenian post offices

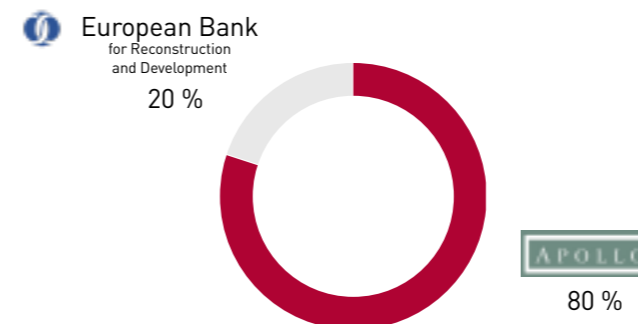
Second largest banking group in Slovenia by total assets, systemic bank

Strategically transformed to focus on core business and return to profitability

High level of liquid assets and good capital position

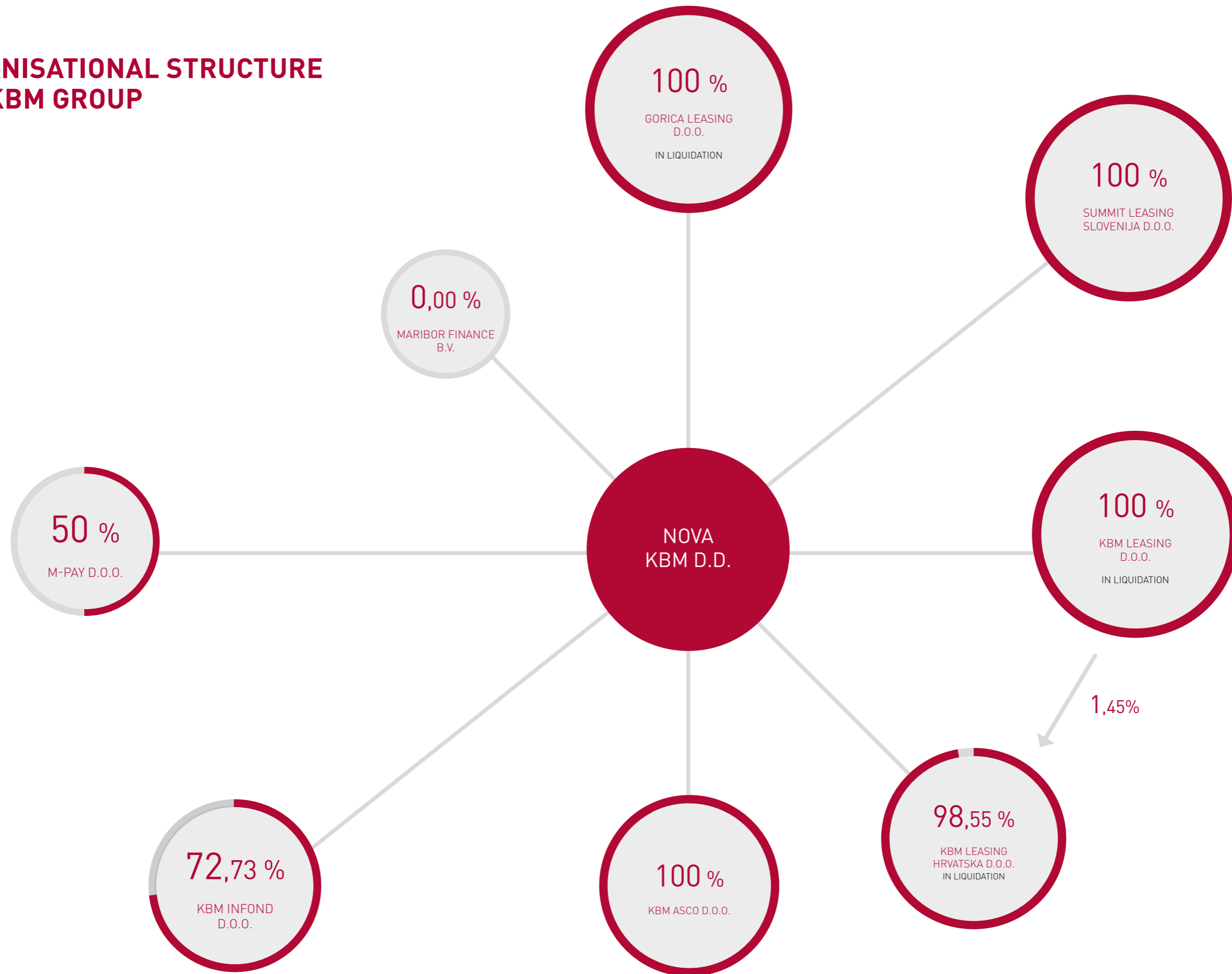


STRONG SHAREHOLDER BASE, COMMITTED TO GROWTH

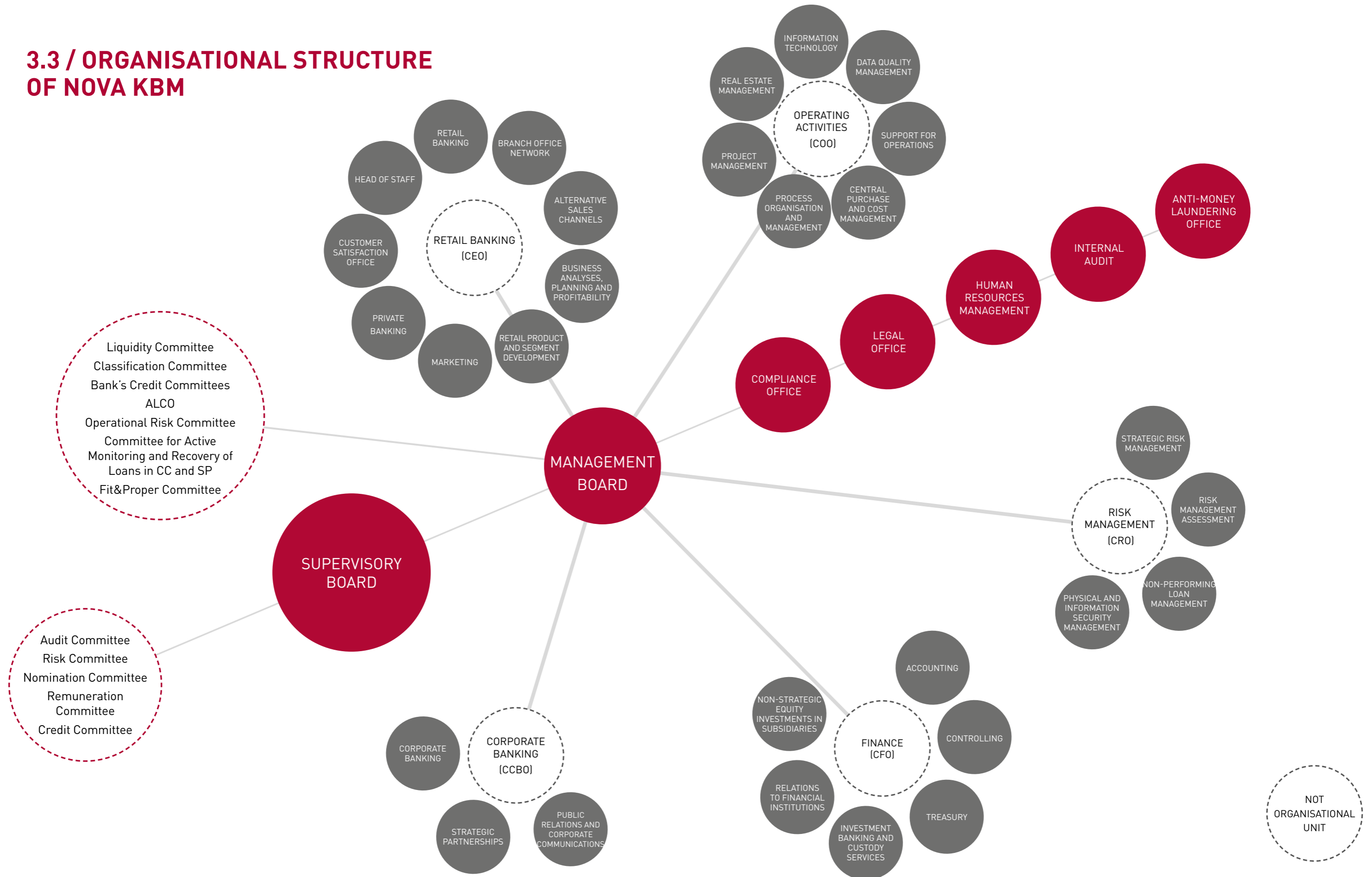


New shareholders committed to enhance business and operating performance; owned by funds advised by Apollo Global Management (80 %) and the European Bank for Reconstruction and Development (20 %)

3.2 / ORGANISATIONAL STRUCTURE OF NOVA KBM GROUP



3.3 / ORGANISATIONAL STRUCTURE OF NOVA KBM



STRATEGIC DIRECTION OF NOVA KBM AND THE NOVA KBM GROUP

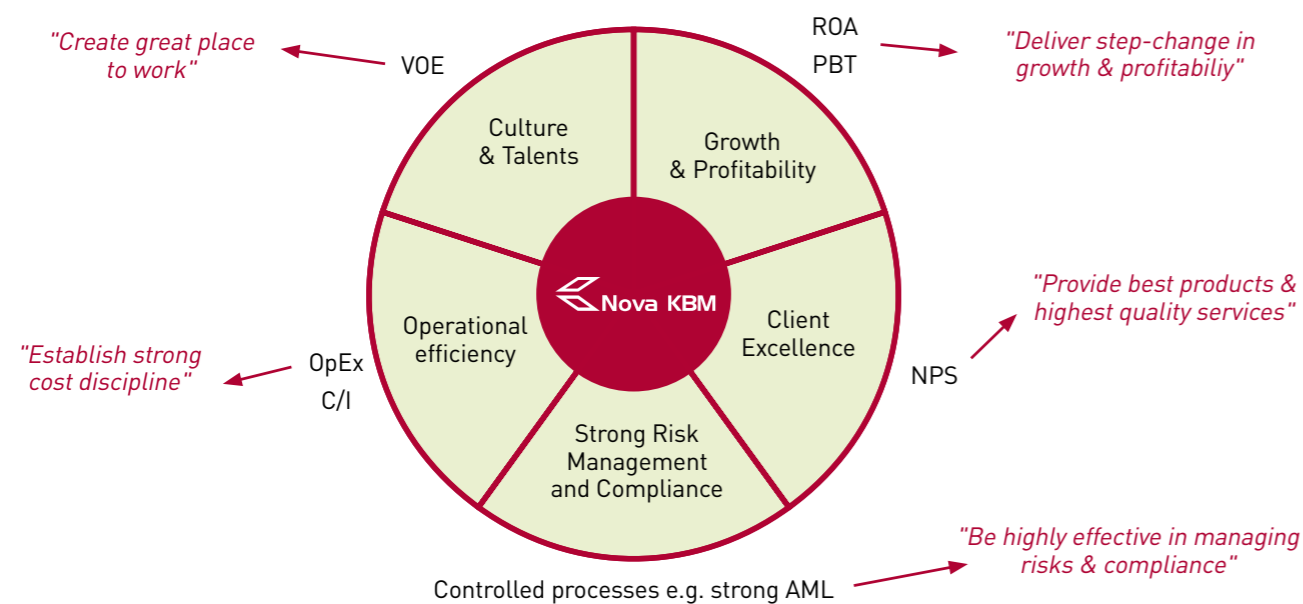
In April 2017, the Management Board and the Supervisory Board approved the Development Strategy of Nova KBM and the Nova KBM Group for the period of 2017–2020.

VISION AND MISSION

Nova KBM's vision: „To become the best bank in Slovenia until 2020“ is placed in the heart of the Development Strategy.

Nova KBM's vision is thoughtfully built on five key pillars or strategic areas. The Nova KBM's mission is a successful realisation of all the strategic pillars:

- **Client excellence**
- **Growth and profitability**
- **Ensuring effective risk management and compliance**
- **Operational efficiency**
- **Organisational culture and development of employees (Culture & Talents)**



Metrics and milestone tracking is set for each strategic pillar, thus enabling the Bank to track implementation of the Strategy.

VALUES

Implementation of the strategy is based on common values that employees of the Nova KBM Group shall take into account in their work, mutual relations, and cooperation with all stakeholders: **trust, responsibility, excellence, honesty, loyalty, and integrity.**

SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY IN THE NOVA KBM GROUP

The Nova KBM Group, as a financial institution of national importance, can make a significant contribution to the growth of social welfare through its mode of operation, financial services and products, and the relationships it develops with strategic stakeholders. This is why the Group sees its efforts for social responsibility and sustainable development at all levels of its operations as a self-regulatory mechanism that not only provides for active compliance with the law, ethical rules, and national and international standards, but also satisfies its own interests in the context of long-term strengthening of broader social welfare and preservation of the natural environment. The Group considers sustainable growth as the central development driver.

The largest share of sustainable and socially responsible activities include Bank's activities, therefore, the disclosures and data presented refer to Nova KBM as a leading company in the Nova KBM Group, except where noted otherwise.

The mission of the Bank, which is based on five pillars, is interwoven by social responsibility and sustainable development, emphasising its responsibility to the economic, social, and natural environments. The Bank incorporates the culture of responsibility into all aspects of its development and behaviour, and promotes long-term development and success in all of its stakeholders.

The Bank builds its vision of social responsibility and sustainable development on:

- Successful performance of the Bank,
- A high value generated for all its stakeholders,
- High standards of integrity, ethics, and compliance,
- Relationships that increase value added in the long run,
- Managing business risks,
- Creating and recognising business opportunities,
- Innovative management of continuous improvement processes.

In 2016 and 2017 – during the period of change in its ownership and extensive structural changes, the Bank was setting up a mechanism of strategic management in social responsibility and sustainable development. This mechanism includes the process of continuous improvements, which is based on clear indicators, their measurement and evaluation.

By using this mechanism, the Bank pursues strategic goals, such as:

- Sustainable **care for the development of employees**, which is defined in detail by the Human Resources Development Policy;
- **Assuming responsibility and managing risks;**
- **Fair and consistent relationships with its stakeholders** in a long run;
- **Quick and innovative exploitation of the opportunities** in sustainable development;
- **Increasing efficient use of resources**, which minimises the burden placed on the environment and reduces operating costs;
- **Continued, transparent and credible communications** about social responsibility and sustainable development;
- **Building trust** in the Bank.

Corporate social responsibility and sustainable development strategic management is a responsibility of the Public Relations and Corporate Communications Department, which involves in its activities the entire organisational structure by respective functions. The following organisational units are involved in carrying out key shifts in the field of social responsibility:

- Compliance Office
- Human Resources Development Department
- Central Procurement and Cost Management Department
- Real Estate Management
- Physical and Information Security Management Department

- Operating Risk Management Department
- Sales Support Centre
- Customer Satisfaction Management Office
- Marketing Department
- Public Relations and Corporate Communications Department
- Alternative Sales Channels Department

REPORTING ON SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY

The Nova KBM Group's Report on Sustainable Development and Corporate Responsibility is a separate report, disclosing its non-financial data and sustainable and socially responsible activities. These activities are based on the Code of Conduct, the Bank's strategic policies and the Nova KBM Group's Policy on Corporate Social Responsibility and Sustainable Development adopted in 2016. The Policy of corporate social responsibility and sustainable development is embedded in all policies, strategic and implementing documents, and other internal regulations of the Bank.

The report reflects relationships with key stakeholders. Relationships with each of the key stakeholder groups are fair and close. In 2017, the level of responsiveness with key stakeholders further increased. Namely, the Bank is continually including new analytical and communication channels in accordance with new needs, which are recognised proactively, in communication with stakeholders.

The Nova KBM Group reported on its sustainable development and social responsibility also in the past, in its Annual Report. In 2017, with the new owner, the Bank started drawing up reports also in accordance



with the ESG (Environmental, Social and Corporate Governance) guidelines covering three main factors in measuring sustainability and ethical impact on society (economy, society, environment). The Bank's owner annually prepares an overview of annual reports of all its companies, which enables the Bank to get an insight into a rich base of best practices in the area of corporate social responsibility and sustainable development, which include also the Bank and can be integrated into its operations.

In accordance with its Policy on Corporate Social Responsibility and Sustainable Development, the Bank in 2017 additionally upgraded ESG indicators with the indicators, which are defined by the GRI Standard and relevant to the Bank's business. This report also refers to the financial report in the field of GRI key indicators presented at the end of the document.

Disclosures are based also on the requirements set out by the EU Directive on disclosure of non-financial and diversity information by certain large undertakings and groups, which was adopted in 2014 and is part of a wider EU initiative on corporate social

responsibility. These requirements were transposed to the Slovenian law in 2016 by the Companies Act (Article 70c). This document is the Bank's Statement of Non-financial Operations.

The reporting is transparent and contains the data currently available in the Nova KBM Group. The following attributes were considered essential in choosing the content: relevance, stakeholder engagement, and sustainable context. In delivering the content, the Bank focused on balance, comparability, accuracy, clarity, and reliability of data.

Key areas of interest were defined based on the matrix of key stakeholders and the Nova KBM Group's Policy on Corporate Social Responsibility and Sustainable Development. They were defined through a systematic process of training and measuring, since the complexity of the Bank's activity covers a wide range of areas of interest. All areas and activities of the Bank were involved in the process.

Indicators on sustainable development and social responsibility used to measure the Bank's performance and progress on the sustainable path were significantly expanded for the purpose of this report compared to previous disclosures and, furthermore, the Bank obtained a new leverage in social responsibility and sustainable development management in a long run, which is a strategic goal of the Bank.

The Bank intends to continue this trend of spreading socially responsible and sustainable operations also in the future, whereby gradually influencing the sustainable transformation of a wider society.

The person responsible for reporting on sustainable development in the Nova KBM Group is **Karidia Toure Zagrajšek**, Director of Public Relations and Corporate Communications Department. The person responsible for preparing and coordinating report is **Simona Rožkar**, communication adviser in Public Relations and Corporate Communications Department.

CHALLENGES AND OPPORTUNITIES OF CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT FOR THE BANK

In the context of economic, financial, and other societal and moral challenges, the banking sector is facing increased regulatory pressures and public control. In order to regain trust, banks in Slovenia find it important to create clear and transparent business models by integrating the factors of social responsibility and sustainable development.

Strategic steps of the Bank on the path to social responsibility and sustainable development are encouraged by the following global challenges, which are present also in the EU and significantly influence the banking sector:

- **Digitisation**, which is radically changing work processes, services, and behavioural patterns;
- **New financial and banking models** (fin-tech companies);
- **Cybercrime and an increased need for security;**
- **Socio-demographic changes:** ageing population, lower fertility, larger migration trends;
- **Changes in value patterns and shopping habits** (increased awareness of the importance of environmental protection, different attitude towards banking services, etc.)

- **Climate change**, which has resulted in society at large in making decisions on changes towards a circular economy, energy efficiency, promotion of renewable energy sources, reduction of carbon and water footprints, etc.

In the banking sector, challenges of corporate social responsibility and sustainable development are not only a basis for the development of new banking products and new opportunities for growth, but also a guarantee for improved management of all types of risks.

The Bank understands the development and implementation of socially responsible and sustainable products and organisational practices as an investment, which includes in particular:

- Its employees and recruitment of suitably qualified employees, education and training of employees, strengthening of their competences, etc.;
- Investment initiatives for social responsibility and sustainable development – the development of new products, new work processes, and the technology platform;
- Effective management of all types of risk;
- Ongoing monitoring of compliance and practices of social responsibility and sustainable development (in the Bank, in suppliers, customers, recipients of sponsorships and donations, etc.);

- Partnership and inter-alliance communication with all key stakeholders.

The Bank seeks to transform challenges of social responsibility and sustainable development into opportunities and strengths as much as possible, and especially at four levels, which together enable multiplier effects for successful performance of the Bank: strengthening the commitment of employees, developing new businesses, attracting socially responsible investors, strengthening the reputation of the Bank.

In a long run, the Bank focuses on such sustainable and socially responsible attitude in all its areas of operation, whereby increasingly influencing social and market changes. The Bank will develop increasing influence by means of visionary, increasing individual responsibility in all employees, and through inter-organisational alliances. By doing so, it follows the strategic goals of the Bank, i.e. to become the first bank in Slovenia.

Figure 1: Four key strengths provided to the Bank through the implementation of social responsibility and sustainable development

- A socially responsible and sustainable bank has a higher reputation in the eyes of the public
- The Bank shall become a reputable employer

- Higher motivation of employees
- Employees are proud of the Bank
- Employees become ambassadors



- A socially responsible and sustainable bank and its products are attractive for investors interested in socially responsible and sustainable investments

- New business opportunities in the field of green economy, sustainable energy solutions, social responsibility, etc.

SUSTAINABLE COMMUNICATION WITH STAKEHOLDERS

The Bank incorporates the culture of responsibility into all aspects of its development and behaviour, and promotes long-term development and success in all of its stakeholders. Our strategic stakeholders include:

- **Employees, including the Nova KBM's Trade Union Coordination,**
- **Customers,**
- **Suppliers,**
- **The owner,**
- **Regulators,**
- **Business and professional public,**
- **Media,**
- **A broader natural and social environment of the Republic of Slovenia.**

The Bank is committed to a comprehensive approach to stakeholder engagement and an ongoing dialogue about its relationships, its role in society, its services, business results, and other issues. Furthermore, the Bank cooperates with its stakeholders with the aim of introducing further improvements.

Relations and interactions with strategic stakeholders are crucial in achieving sustainable progress and assessing the impact of its operations. The Bank finds it essential to listen actively to various stakeholders and respond to their views. Through such two-way communication, the Bank facilitates balancing competitive expectations and improving its performance.

The Bank wants to improve its operations constantly; therefore it is necessary to recognise and understand the most important economic, social and environmental challenges of its strategic stakeholders.

To understand them better, the Bank carries out regular analyses of materiality in order to determine the priorities of its strategic stakeholders and assess their impacts on the Bank. Results of these analyses serve as guidelines in strategic decision-making, determining the priority order of stakeholder engagement, and in the reporting on social responsibility and sustainable development of the Bank.

Table 1: Overview of the implementation of key dialogues

PUBLIC/ KEY STAKEHOLDER	FORM OF DIALOGUE
OWNER	Supervisory Board meetings
	Personal communication
	Reports on performance
REGULATORS	Reciprocal communication and reporting
	Annual cooperation reviews
	Report on performance
EMPLOYEES	Personal communication
	Employment development dialogue, goal setting
	Surveys on satisfaction and commitment
	Intranet, internal newsletter, and other communication channels
TRADE UNIONS	Personal communication
	Regular meetings, harmonisations and negotiations
CUSTOMERS	Personal communication
	Customer satisfaction surveys
	Professional meetings, networking events, and strengthening business links
SUPPLIERS	Personal communication and meetings
BUSINESS AND PROFESSIONAL PUBLIC	Round tables, focus groups, professional workshops, and annual reports
MEDIA	Regular communication, personal meetings
	Press releases and other communication tools

MATERIALITY MATRIX

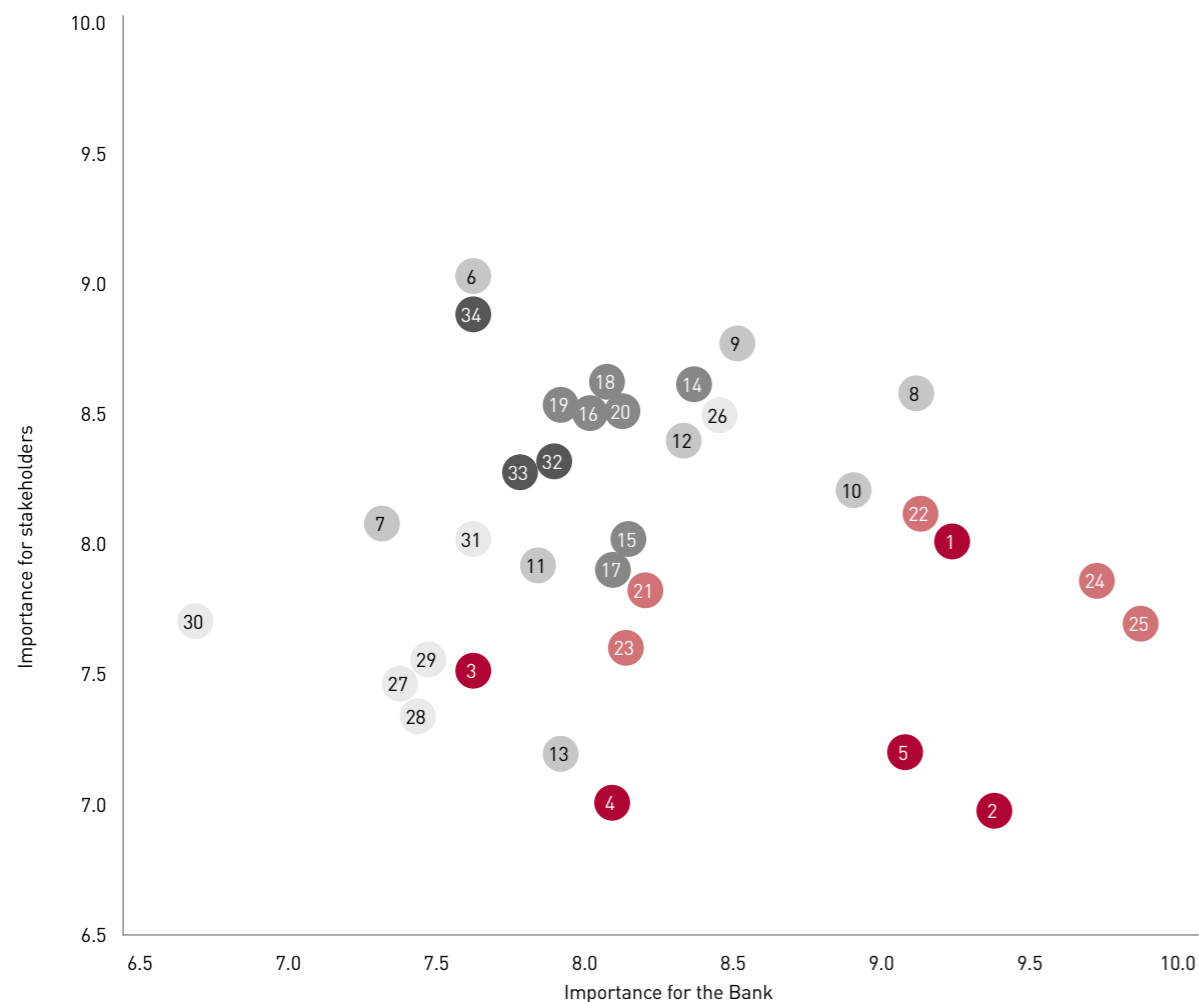
In relations with strategic stakeholders, the Bank identified six substantive areas, where it pursues key common objectives. These areas include:

- Economic performance
- The excellence of customer services
- Work processes in the Bank
- Fair business practices

- Social and environmental impacts
- Stakeholder engagement

In 2016, the Bank assessed all of these areas in terms of their current importance for the Bank and key stakeholders, and carried out workshops with key stakeholders. Based on this assessment, the Materiality Matrix was created.

Figure 2: Materiality Matrix



Legend:

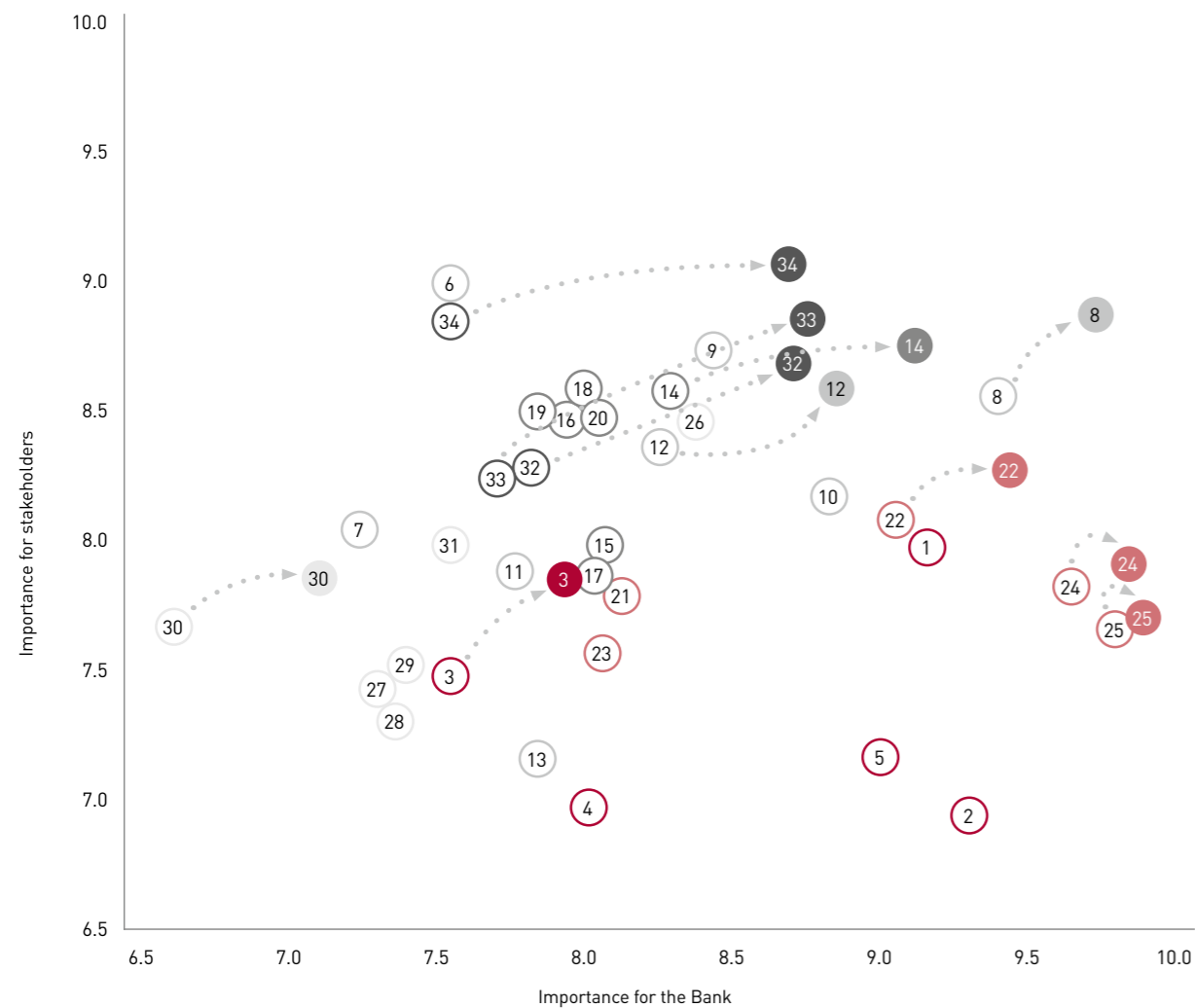
ECONOMIC PERFORMANCE	
1	Financial performance
2	Capital adequacy
3	Indirect impact on the economy
4	Tax policy
5	Risk management
CLIENT EXCELLENCE	
6	Pricing of products and services
7	Training people to make smart financial decisions (financial literacy)
8	Availability and accessibility of the Bank's products and services digitisation /personal approach
9	Customer privacy and data protection; prevention of phishing
10	The stability of information systems and platforms
11	Accurate communication on products and services
12	Innovation (process, product, marketing)
13	Responsible lending and debt reduction (prevention of excessive debt)
WORK PROCESSES IN THE BANK	
14	Employability and career development
15	Mentoring
16	Relationships between employees and the management
17	Occupational health and safety
18	Diversity and equal pay, development opportunities
19	Remuneration
20	Prevention of discrimination
FAIR BUSINESS PRACTICES	
21	Accurate customer information about risks
22	Corruption prevention
23	Prevention of anti-competitive behaviour
24	Regulatory development and compliance
25	Compliance with money laundering prevention
SOCIAL AND ENVIRONMENTAL IMPACTS	
26	Social impact on local communities
27	Environmental efficiency of the Bank's offices
28	CO ₂ emissions and energy use
29	Waste
30	Assessment of suppliers
31	Sustainable financing and investment policy
STAKEHOLDER ENGAGEMENT	
32	Stakeholder dialogue
33	Transparency and availability
34	Preserving and regaining confidence



In line with the philosophy of continuous progress towards social responsibility and sustainable development, the Bank will strive for strategic shifts in the period 2017-2020, especially in the areas of the excellence of customer services, fair business

practices, and stakeholder engagement. The Bank is aware that all these shifts are conditioned by satisfied and competent employees who will ambitiously follow the key objectives in all work processes.

Figure 3: Strategic shifts in the materiality matrix in 2017-2020



Legend:

- ECONOMIC PERFORMANCE**
- 1 Financial performance
- 2 Capital adequacy
- 3 Indirect impact on the economy
- 4 Tax policy
- 5 Risk management
- CLIENT EXCELLENCE**
- 6 Pricing of products and services
- 7 Training people to make smart financial decisions (financial literacy)
- 8 Availability and accessibility of the Bank's products and services digitisation /personal approach
- 9 Customer privacy and data protection; prevention of phishing
- 10 The stability of information systems and platforms
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- FAIR BUSINESS PRACTICES**
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- 22 Corruption prevention
- 23 Prevention of anti-competitive behaviour
- 24 Regulatory development and compliance
- 25 Compliance with money laundering prevention
- SOCIAL AND ENVIRONMENTAL IMPACTS**
- 26 Social impact on local communities
- 27 Environmental efficiency of the Bank's offices
- 28 CO₂ emissions and energy use
- 29 Waste
- 30 Assessment of suppliers
- 31 Sustainable financing and investment policy
- STAKEHOLDER ENGAGEMENT**
- 32 Stakeholder dialogue
- 33 Transparency and availability
- 34 Preserving and regaining confidence



SUSTAINABLE MANAGEMENT RELATIONS



The Bank understands the commitment to corporate social responsibility and sustainable development as the highest level of responsibility to all stakeholders, at all levels of the Bank's operations. Such management is based on the Bank's policies and strategic documents and transferred to operational activities.

9.1 / CODE OF CONDUCT OF NOVA KBM AND THE NOVA KBM GROUP



ALL EMPLOYEES IN THE BANK COMPLETED E-TRAINING ON THE CONTENT OF THE CODE OF CONDUCT

In 2017, the Bank revised its Code of Conduct. Applicability of the Code was extended to all employees of the Nova KBM Group. Every employee of the Bank was provided with a copy during the internal training called Together to excellence. Senior staff familiarised with the Bank's values described in the Code at a special event. All employees of the Bank were informed about the content of the Code under compulsory e-learning. Furthermore, the Bank included key information from the Code in other internal employee events. In 2018, the Bank will deliver training for all employees of the Nova KBM Group.

9.2 / ANTI-CORRUPTION ACTIVITIES

In 2017, the Bank revised its Anti-Corruption Policy. The Bank implements its Anti-Corruption Policy through the Compliance Programme, by preparing anti-corruption risk assessments, implementing compulsory training courses, awareness-raising among employees, internal campaigns and communication, due diligence of external contractors, including the receipt of their compliance statements, and through reviews of key employees in line with the Bank's policies.

9.3 / CONTINGENCY PLAN

Business continuity management in the Bank provides support for a timely recovery or maintenance of key business processes in case of emergency. In order to ensure resilience, the Bank's Business Continuity Policy sets out annual performance of business impact analysis, reviews and updates of business continuity plans and their testing.

THE BANK REVISED SCENARIOS UNDER THE BUSINESS CONTINUITY PLAN

In the field of business continuity, under the adopted business continuity management strategy and based on the business impact analysis, the Bank revised in 2017 the scenarios considered for all key products of the Bank under the Business Continuity Plan.

Based on that, the Bank initiated in 2017 a thorough structural and substantive renewal of business continuity plans, including a shift in the approach to the preparation of plans from an organisational approach to a process approach. Several tests of business continuity plans were carried out using various scenarios, including a comprehensive testing of the information technology services continuity, where employees from all key business areas were involved.

SIMON TANTEGEL,
Compliance Office Director



„Planning, implementation and spreading of a positive corporate culture in the Bank is an important part of effective corporate governance. By doing so, we are safeguarding especially the Bank’s reputation, which is an invisible yet essential part of its assets. By means of a coherent, fair, scrupulous, impartial, ethical behaviour and personal excellence, employees can significantly contribute to the development of our Bank as a trusted institution. In this area, we are guided also by the Code of Conduct that includes our common values and represents a signpost to our daily judgements and decisions at work. Therefore, in 2017, we have focused significant efforts on the development, communication and, in particular, a uniform understanding of the Code of Conduct at the level of the entire Nova KBM Group, considering it to be the fundamental document representing the highest standards of accountability to our stakeholders.“

9.4 / RISK MANAGEMENT

Assuming risks in a transparent and responsible manner, and achieving the highest degree of compliance with risk management standards is a basic guideline in the area of risks. In their strategy, the Bank and the Group have defined the amount of risk they are capable and willing to accept in order to manage it successfully. The awareness of the importance of risk management in operations is being transferred also to sustainable relationships with the social environment and various stakeholders.

The Bank manages different types of risks. In this document, we are exposing operational risk, which has numerous subcategories that are spread in operations throughout the organisation.

OPERATIONAL RISK

Although the formal definition of operational risk as set out in Basel II (i.e. risk of loss arising from inappropriate or failed internal processes, people and systems or external events) does not include a strategic risk and a risk of losing business reputation, the operational risk in the Bank includes numerous subcategories, such as:

- Legal risk,
- Risk of conduct,
- Information and communication technology risk,
- Model risk, and
- Project risk.

All these risks, which are aggregated under operational risks, can have a positive or negative impact on corporate governance, social and societal environment.

In 2017, the Bank made progress in the field of operational risk. It adopted a number of documents in the field of comprehensive operational risk management, defined the risk appetite, and set up a reporting system.



The report for the whole Group is discussed by the Operational Risk Committee, which meets at least quarterly. Significant emphasis was placed on the systematic capturing of operational risk events. The Bank identifies and distinguishes operational risk events as financial loss events, the effect of which is financial loss, and non-financial and potential events, the effect of which is of a regulatory nature or results in an effect related to customers, market/competitors and/or reputation. A potential event arising from operational risk is the event with no financial/non-financial effects, while having the potential to cause such effects. Since not all operational risk losses can be measured, the Bank assesses them additionally, but separately, under its annual risk profile. All of these result in improved management of operational risks, and hence in the development of sustainable relationships to the social and societal environment.

ALL EMPLOYEES IN THE BANK COMPLETED E-TRAINING ON OPERATIONAL RISKS

In the context of sustainable development towards the social environment, a major step forward was made in the education of employees in 2017. The Bank conducted a special training course for rapporteurs and owners of operational risk events. Furthermore, all employees completed a compulsory e-training course including numerous practical cases.

Improvements in the system of systematic and centralised monitoring of customer complaints have resulted in better management of operational risk events. The Bank put significant emphasis on the measures that would prevent repeating of such events and reduce a negative impact on customers and the Bank, respectively. This is enabled through a comprehensive consideration of operational risk by the Operational Risk Committee that involves members of the Management Board and directors of divisions and departments.

Operational risk is also associated with external providers, which are the most important part of the entire group of suppliers. The new document defined, under the framework of managing the risks related to outsourcing, various tasks, such as to review contracts that should include an agreement on the quality of services, to assign personnel in charge for the control of the quality of execution, to ensure a business continuity plan for external providers that has to be implemented, and responsibilities of individual organisational units within the Bank.

Operational risks include also the prevention of fraud, and physical and information security, where a major progress was made in 2017. The fraud management policy has been set up, which requires the Bank, in relation to owners and other stakeholders, to take necessary measures to prevent fraud, which could arise from prohibited conduct by employees, business partners or suppliers or the conduct of other legal entities or natural persons. Risk management in the field of physical and information security management in the Bank covers the area of protection of people and property, information security management, and business continuity management.

Additional and comprehensive information about other types of risks are disclosed in the financial report on pages from 91 to 120.

SUSTAINABLE RELATIONS TO SOCIAL ENVIRONMENT



Open and proactive relationships with all stakeholders in the social environment are the basis of our understanding of social responsibility and sustainable development. The Bank approaches all its relationships in a strategic manner, which means that it pursues the goals, manages their implementation, measures performance, and carries out the process of continuous improvement.

10.1 / HUMAN RESOURCES MANAGEMENT

EMPLOYEES

Employees are a key factor in the performance of the Bank. The Bank believes that its success and growth are founded on its satisfied and committed employees being properly trained for their jobs. Therefore, the Bank creates a well-arranged and safe working environment, organises skill upgrading and training courses and, consequently, provides its employees with

a possibility of personal and career development and a possibility of participating in further development of the Bank.

At the end of 2017, the Bank had 1,419 employees, which is 173 more than at the end of 2016. On the last day in the year, 1,387 employees (98 %) had permanent employment contracts, and 32 employees (2 %) fixed-term contracts.

Compared to 2016, the increase in the number of employees was largely attributable to the acquisition of KBS banka. Notes on the number of employees in 2016 and 2017 are presented in the table below.

Table 2: Number of employees

	2017	2016
AS AT 31 DECEMBER		
Total number of employees	1,419	1,246
Number of permanent employees	1,387	1,235
Number of fixed-term employees	32	11
Number of disabled employees	24	29
DURING THE YEAR		
Average number of employees	1,459	1,161
Number of new employees	358	290
Number of employees that left	185	100

All candidates that have undergone the selection process were provided with equal opportunities. 2017 was the year of intensive restructuring of the Bank, covering also the human resources area, which is why the Bank recruited significantly more staff than in previous years. In order to promote recruitment of young people and to refresh the collective, a large number of young people was employed in the Bank in 2017 that, consequently, resulted in a decrease in the average age.

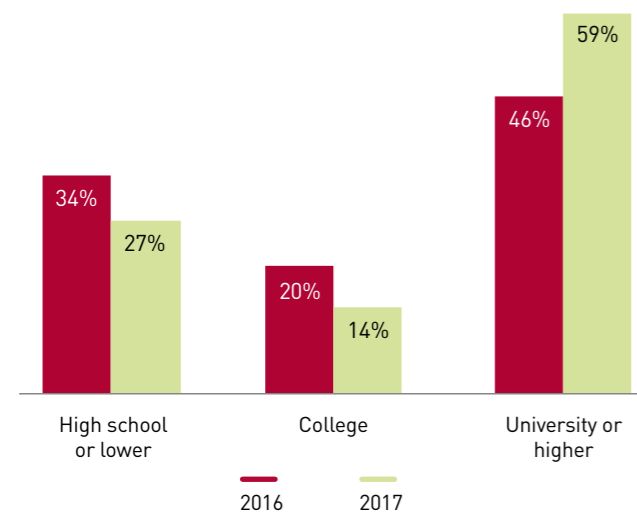
THE AVERAGE AGE DECREASED BY 1.3 YEAR, TO 45 YEARS OF AGE

EMPLOYEE DEMOGRAPHIC

Of the total number of employees, 74 % were women and 26 % men at the end of 2017. The average age of employees at the end of 2017 was 45. Compared to 2016, the average age decreased by 1.3 year.

The proportion of employees having a high school degree or lower was 27 %, the proportion of employees with a college degree was 14 %, and as many as 59 % of the total workforce had a university degree or higher. Compared to 2016, the number of staff with university degree increased by 13 %.

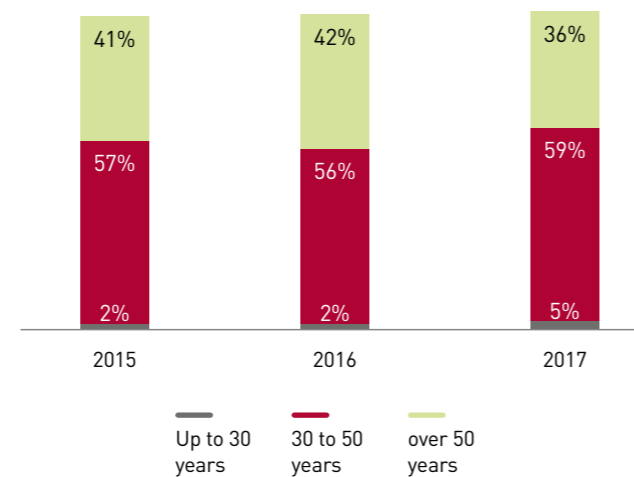
Graph 1: Educational level of employees



STRUCTURE OF EMPLOYEES BY AGE GROUPS

In 2017, the age group of up to 30 years included 5 % of employees, 59 % of employees were aged between 30 and 50 years, and 36 % of employees were older than 50 years. Trends show an increase in the share of the youngest group of employees, i.e. up to 30 years.

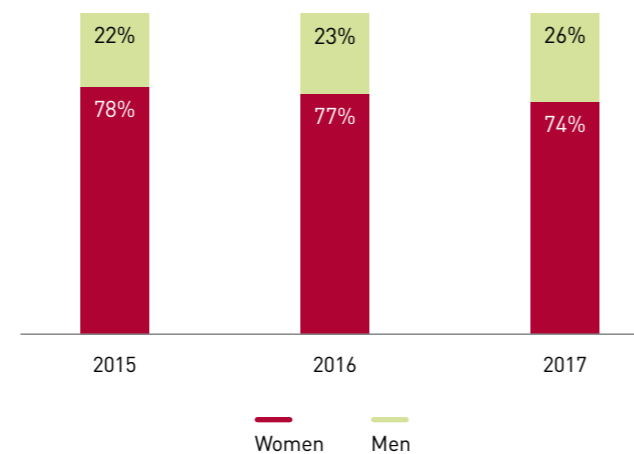
Graph 2: Shares of employees by age structure



In 2017, the Bank had the following ratio of employees at senior positions, such as directors and heads:

- 48 men (52 %), and
- 44 women (48 %)

Graph 3: Shares of employees by sex



TRAINING OF EMPLOYEES

Training and professional development of employees are systematically planned through annual staff plans and are an integral part of the Bank's staff policy and of its business and financial plans. These plans are developed with the support of all departments of the Bank.

In 2017, significant emphasis was put on various training courses. One of important courses was a special workshop for all employees addressing the topic of customer excellence. The latter represents significant progress for the Bank, as it emphasises both excellence in external and internal customers. The workshop includes also understanding and communication of the Bank's values, among which honesty and integrity are very important.

The Bank most frequently covers its training needs by internal training courses. These courses are adjusted to the needs of employees, in terms of content and time.

THE NUMBER OF PARTICIPATIONS AT TRAINING COURSES ROSE BY MORE THAN 60 %

ROK ZUPANČIČ,

Human Resources Development Department

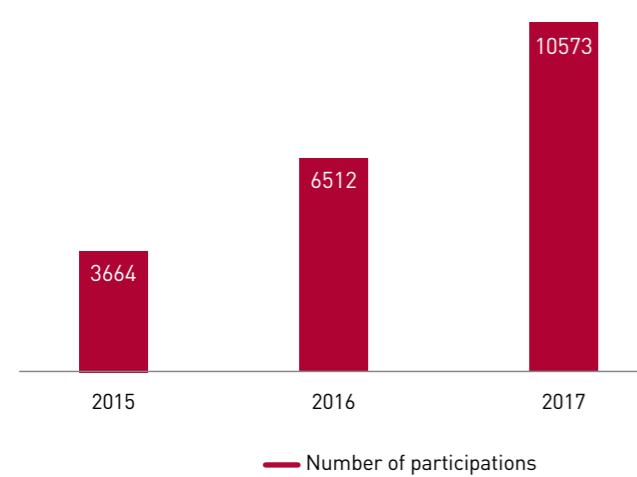


„Motivated and qualified employees are a key factor of success in the implementation of business and sustainable transformation. In 2017, numerous activities were carried out in the area of employee development, and the first positive results are already observed. By means of various measures focused on employee development and by recognition of their achievements, we are striving to strengthen the reputation of the Bank as an employer, and to create the system of remuneration, conditions, and the working environment that will enable a sustainable growth, development and progress.“

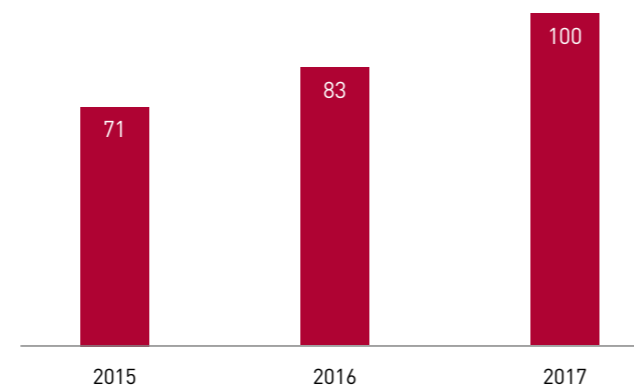
In order to ensure adequate qualification and professional and personal development of its employees, the Bank seeks to involve the broadest possible range of employees in training and skill upgrading. This was one of the reasons why e-training was introduced in 2017. As a result from introducing e-training, the number of participations increased remarkably, since these trainings involved all employees. It could not be achieved by traditional training sessions in classrooms. At eight e-training courses, the Bank recorded 6,351 participations, i.e. 60 % of total involvement of employees in skill upgrading in 2017.

Employees attended 177 training courses in total. Accordingly, the Bank recorded 10,573 participations. The number of participations exceeds the figures from previous years by 62 %. The Bank organised and carried out internally 60 training courses adjusted in terms of content and time, which is 30 % more than in the past years.

Graph 4: Number of participations at training courses 2015-2017



Graph 6: Percent share of participants at training courses 2015-2017



Introduction of e-training enabled the Bank to involve all employees in training courses

Graph 5: Average number of participations per day 2015-2017

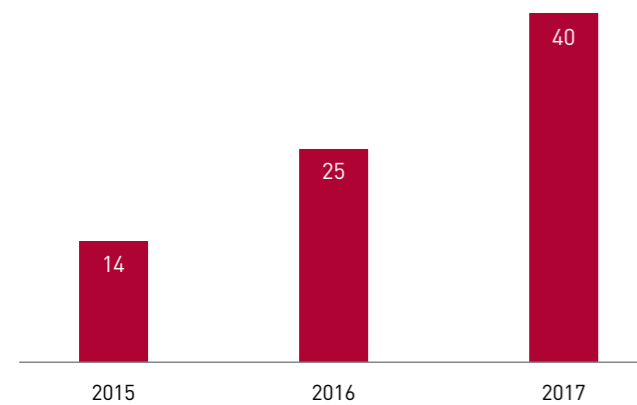


Table 2: Training courses in 2017

TRAINING COURSES (BY METHOD OF PERFORMANCE)	NUMBER OF TRAINING COURSES	NUMBER OF PARTICIPATIONS	IN %
Internal (in the classroom)	60	4,015	38 %
e-training courses	8	6,351	60 %
External	109	207	2 %
TOTAL	177	10,573	100 %

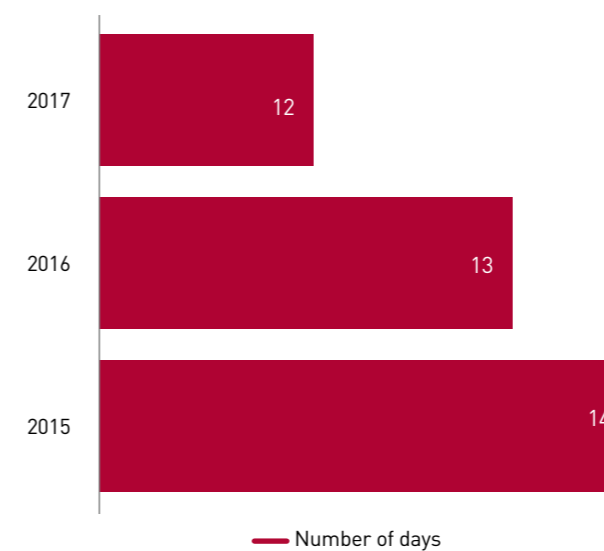
EMPLOYEE TURNOVER

In 2017, employment contracts ended with 185 employees, while 358 employees were recruited anew. The bank recorded 4.5 % absenteeism. The average absence per employee decreased from 13.1 days to 11 days.

There were 131 men (37 %) and 227 women (63 %) among the newly employed. According to the age structure, the Bank employed 55 people aged up to 30 years (15 %), 257 people aged between 30 and 50 years (72 %), and 46 people aged over 50 years (13 %).

The Bank was left by 48 men (26 %) and 137 women (74 %).

Graph 7: Average absenteeism per employee



SURVEYS ON EMPLOYEE SATISFACTION AND ENGAGEMENT

42 MEASURES WERE PREPARED AFTER THE SURVEY OF COMMITMENT

The Bank considers opinion and well-being of its employees important. For this reason, the Bank carried out in 2017 two employee satisfaction and engagement surveys (VOE – Voice of Employees). Based on the results of the survey, the Bank developed 42 different measures in the fields of communication, processes, career development, working environment, and remuneration and recognition of achievements. Since the results of the measures are already shown, the Bank will continue with surveys and new measures also in 2018.

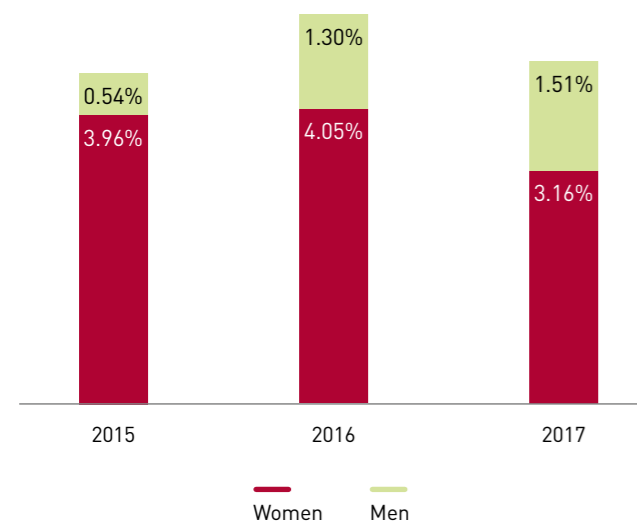
RECONCILIATION OF PROFESSIONAL AND PRIVATE LIFE

The Bank decided to create, in a long run, working conditions, in which employees will be productive at work and satisfied with their jobs, despite of their family responsibilities. Through the policy of reconciling professional and family life, the Bank set up a starting point to create an organisational environment that will support private life and make the employees with family responsibilities feeling accepted.

An overall goal of the policy of reconciling professional and family life is to provide as many employees of the Bank as possible with a job that will bring benefits to both the worker as an employee and the Bank as the employer, which means that it will offer the conditions for physical and psychological well-being of employees, while ensuring successful functioning and operations of the Bank.

In 2017, maternity leave was used by 46 women (3.16 %), and 22 men (1.51 %) used parental leave. The proportion of men taking parental leave has been increasing since 2015.

Graph 8: The use of maternity leave



FAMILY-FRIENDLY COMPANY CERTIFICATE

The Bank acquired the basic Family-Friendly Company Certificate in 2011, and the full certificate in 2015. Hereby, the Bank decided to implement 13 measures under the basic certificate, and further 5 new measures under the full certificate.

New circumstances that resulted from the acquisition of KBS banka led to an agreement that, during the interim period, i.e. until new, joint measures of the merged bank are put in place, which is expected to be in 2018, the measures shall be implemented in a reasonable volume and content.

In 2017, the largest volume of measures covered health protection, New Year presents for children, psychological help, and children's time bonus (paid absence for the 1st day of school and for introduction to kindergarten).

WORKPLACE HEALTH PROMOTION

THE BANK ALLOWED NUMEROUS EMPLOYEES TO PARTICIPATE AT LJUBLJANA MARATHON

Being aware that we live in the time of rapid changes and constant adaptation, the Bank has been striving for decades to make employees feel good and to foster good interpersonal relationships.

Particular attention is devoted to the health and safe working conditions. This year again, the Bank provided all of its employees with the opportunity to be vaccinated against seasonal flu, get preventive health check-ups, and use ergonomic equipment at their workplace. Benefits include also 18 paid hours, which employees can use during the year to visit a doctor by themselves or on behalf of their children, but no more than a total of 3 hours at once.

Healthy psychophysical condition of employees and a favourable psychosocial environment are encouraged and ensured through free psychological help, which is available to employees every business day, and by organising workshops for well-being.



A team of runners at Ljubljana Marathon

The Bank enables its employees to spend their free time in quality manner. Employees are entitled to paid work absence to participate at winter and summer sports games; in 2017, the Bank upgraded this segment by a mass participation at the Ljubljana Marathon. Moreover, a wide variety of recreational, sports and cultural events have been made available to employees for a number of years. A sports society has been active in the Bank for many years; it includes 16 different sports sections.

Through informal gatherings, the Bank strengthens its values and builds the loyalty to the Bank among all of its employees.

SAFETY AT WORK

By implementing appropriate organisational and safety measures, the Bank is constantly striving to reduce risks that may arise from work processes. In 2017, there were 6 work accidents, which is by 3 less than in the previous year.

JOBS WITH INCREASED LEVEL OF RISK

The Bank employs 143 persons at jobs, such as a cashier, salesperson-cashier, treasurer in the business network, branch office manager, Cash Centre manager, head of the cash department, bank security adviser, maintenance technician, workstation technician, courier, driver, treasurer, tracking officer II, cash operations officer. The Bank ensures taking out

accident insurance in the amount €1.69 per month for its employees working at exposed jobs, as determined by the risk assessment.

INSURANCE AS AN INVESTMENT IN THE FUTURE AND HEALTH

The Bank provides its employees with the opportunity to join a voluntary supplementary pension insurance scheme. Through the Bank, employees and their family members may also join the collective accident insurance scheme.

SECONDARY AND TERTIARY STUDENT PLACEMENT

Being aware of the importance of combining theoretical knowledge with practical skills, the Bank gives secondary and tertiary students an opportunity to engage in internship under the supervision of mentors, enabling the students to familiarise with work processes. For some of them, secondary and tertiary student placement represents the first contact with a company and the first work experience; therefore, the Bank did its best in 2017 to provide placement for as many secondary and tertiary students as possible.

COOPERATION WITH TRADE UNIONS

The Bank estimates its cooperation with trade unions to be very good and fair. In 2017, the Bank carried out negotiations for a new collective agreement since, due to the merger, there were 3 different collective agreements in place, with different rights for employees. Considering the fact that the Bank is undergoing an intensive restructuring process, trade unions have been involved and timely informed also about the measures and consequences of the restructuring process.

CHRISTMAS GIFTS FOR CHILDREN

In 2017, the Bank, working with the Nova KBM's Trade Union Coordination, delivered Christmas gifts to children of its employees and invited them to several performances. For children aged 1 to 7 years, three performances were organised in total in Maribor and Nova Gorica, each one of them was followed by a visit of Santa Claus with gifts. The Bank distributed gifts to more than 420 children.

PROGRAMMES DESIGNED FOR EMPLOYEES

„CHANGE YOUR JOB“ PROGRAMME

With an aim to transfer knowledge and good practices in the Bank more efficiently and to achieve excellence in team work, the Bank prepared the „Change your Job“ programme, which enables employees to change their jobs, work environment, colleagues, and superiors for one day. Over 90 % of employees participated in the programme, met their expectations and would participate in the programme again. They pointed out that through the change, they won benefits both in their professional field and in their inter-personal relations.

YASEMIN ALTINYAY,

consultant for customer satisfaction management



„Client Excellence is working closely and connected with our clients and employees. We are committed to serve our clients with outstanding service and best-in-class products. By this we have in mind also sustainable development and social responsibility, which is tightly bounded with our values.“

IN 2017, THE PROGRAMME „TOGETHER TO EXCELLENCE“ WAS LAUNCHED; IT HAS A KEY ROLE IN REACHING THE VISION

TOGETHER TO EXCELLENCE PROGRAMME

Client Excellence is a key part of the Bank's ambition to realise its vision and become the best bank by 2020. With the Client Excellence programme, the Bank is even more focused on its customers and on improving their satisfaction and commitment. The Bank pursued the goal of providing its customers with the level of satisfaction that will encourage them to recommend the Bank to their friends and family members. Client Excellence Management Office was founded in 2017, and the programme pillars and tasks were communicated to the entire Bank. The pillars of Client Excellence are:

- Learn from each other
- Listen to our clients
- Improve ourselves
- Measure
- Effective internal communication

Many Client Excellence programmes were launched in 2017. In order to build a common understanding of our corporate values, Nova KBM's Code of Conduct and service standards, Client Excellence Bank-wide training programme were designed and implemented for all employees by nominated ambassadors.



Skupaj do odličnosti | Together to excellence

These training sessions involved 75 % of all employees in the Bank. Quality Councils were established separately for Retail and Corporate Banking to focus on improving client interactions and minimise client complaints. Quarterly customer satisfaction surveys have been started in order to listen to our clients' needs and serve them better. With a purpose of internalising corporate values, real cases that our colleagues had showcased were communicated through in e-circular. A funny way of bringing employees closer to leadership and management teams was introduced and recorded in short videos.

PROMOTING OPEN COMMUNICATION

Effective internal communication is the key that opens the door to better cooperation, serving at the same time as an important tool for achieving ambitious goals of the Bank.

In 2017, the Bank conducted regular monthly meetings, which were attended by all senior directors and the Management Board of the Bank. Furthermore, the Bank organised extended meetings for directors and heads every quarter. The main objectives of monthly and quarterly meetings are to inform participants about key performance results, novelties and priority tasks, to encourage an open dialogue on topical issues and challenges, to strengthen the responsibility of directors and heads to transfer the content considered to other employees in their organisational units in a quality manner and regularly. Last but not least, such meetings are also aimed at strengthening informal bonds between directors and heads, which positively contributes to improving the communication in work processes.

In August, the Bank launched an internal programme called „Skips“, which aims at improving and strengthening the dialogue between employees and all members of the Management Board directly. Through these meetings, the Bank encourages open communication about daily challenges between the operational and strategic levels of operations in the Bank. The programme is designed as an aid aimed at skipping obstacles that would otherwise slow down the Bank on its path of positive changes. The programme was participated by 188 employees last year.

WE ARE ENCOURAGING TEAM SPIRIT AND INDIVIDUAL COMMITMENT

Jolanda Milič Klobasa Petra Zemljič Dragan Cvijanović Rozalija Rojko

NAJ PRODAJALCI
1. DO 31. OKTOBRA 2017

Best sellers in the Bank

The Bank is capable of recognising above-average work and job performance in employees and motivates them to continue to do their best by various remuneration packages.

Employees with the best results are rewarded in financial and non-financial ways. The Bank pays financial awards in accordance with the provisions of both collective agreements and the Bank's internal regulations. Individual rewards are contingent upon the achievement of objectives set for each employee. The Bank has been providing its most loyal employees with long-service bonuses for decades.

Following a 3-month pilot period, the Bank started in 2017 using the model of rewarding and promoting sales performance of employees in branch offices. The main objectives of setting up the new model are to increase the motivation in employees to achieve better sales results, and to increase the visibility of the best sales persons. The best sales persons are presented to all employees by their name, photos and sales achievements. Acknowledgements to the best sales persons are delivered also by directors, heads, and the Management Board. The model is used to encourage each sales person to calculate for themselves what can they achieve by more efficient sales. The new model rewards both teams and individuals; therefore, it encourages team spirit and individual commitment. During the second half of the year, also employees from the fields of corporate banking and non-performing loans joined the scheme of awards.

10.2 / CUSTOMERS

The excellence of customer services has a central role in the Bank's business strategy. The Bank is aware that only excellent services, tailored to individual customers are the basis for a long-term relationship. The Bank made in 2017 several strategic steps in this area.

FIVE NEW SPECIALISED BANK COUNTERS OPENED IN POST OFFICES



Specialised Banking Counter (SBO) provides banking and postal services.

Pošta Slovenije is a strategically important partner for the Bank. 2017 was a year of constructive cooperation and the search for synergies in the field of customer operations. Further to the existing Specialised Banking Counter (SBO) located in Ljubljana, the Bank and Pošta Slovenije opened five additional counters, i.e. in Slovenske Konjice, Grosuplje, Ljubljana, Radovljica, and Šentjur. At these locations, customers can be provided by both banking and postal services. SBO is a special space arranged in a post office offering an adequate level of privacy in comprehensive advising and using all non-cash banking services.

The Bank intends to expand its range of specialised bank counters in the future, testing the innovative new branch banking model.

THE BANK THAT COMES TO WORKPLACE

The Bank at Work is a programme, which started in November 2017, aiming at bringing employees in companies closer to the Bank, and facilitating operations through a specially designed offer. This programme will enable employees to save their time and money, as the Bank visits them at their workplace. Large companies will be joining the programme also in 2018.

SERVICES IMPROVED IN TERMS OF SECURITY

In 2017, the Bank upgraded the mobile bank service, improved its user experience and security. In order to ensure the highest security of the mobile bank service called mBank@Net, the Bank conducted security tests to detect vulnerability.

A NEW PREMIUM BANKING SERVICE AND A BRANCH OFFICE LAUNCHED



The Bank opened the first Premium branch office in Maribor.

The Bank wants to offer something more to its customers, which is why it introduced a new Premium Banking service this year that is fully adapted to the customer's financial needs. Therefore, the Bank combined in the top quality package the best services, which provide customers with safe and easy everyday financial operations.

PERSONAL BANKER IS AVAILABLE TO CUSTOMERS THROUGH PREMIUM BANKING EVERY BUSINESS DAY UNTIL 8 PM

The customer acquires Premium Banking services by **entering in the Premium package**, which includes all important services needed by customers, enabling them to do business easily. A vital part of the package is a highly qualified **personal banker** who carries out everyday financial transactions on behalf of the customer. Personal bankers are available through a mobile phone or in specially adapted Premium premises in Nova KBM's branch offices every business day between 8 am and 8 pm.

The Bank believes that this is a service of the future. Customers targeted by the service appreciate personal treatment, and a special and high-quality service, which is confirmed by the satisfaction of the Bank's customers.

The most important advantage of the Premium service is a professionally trained personal banker who helps the customers along the road of achieving their financial goals and desires. By the end of 2017, the Bank has **18 personal bankers** to deal with Premium customers; they work in the following branch offices: **Premium Maribor, Centrala Nova Gorica, Murska Sobota, Ljubljana, Kranj, Ajdovščina, Idrija, Novo mesto, Slovenska Bistrica, and Koper.**

Premium customers are subject to priority treatment; therefore, the Bank arranged special rooms for them in the branch offices providing Premium services.

At the beginning of November 2017, the Bank opened at Maistrov dvor, in Razlagova ulica 4, Maribor, the first branch office in Slovenia intended only to Premium customers of Nova KBM

REVISED COMPLAINT SYSTEM

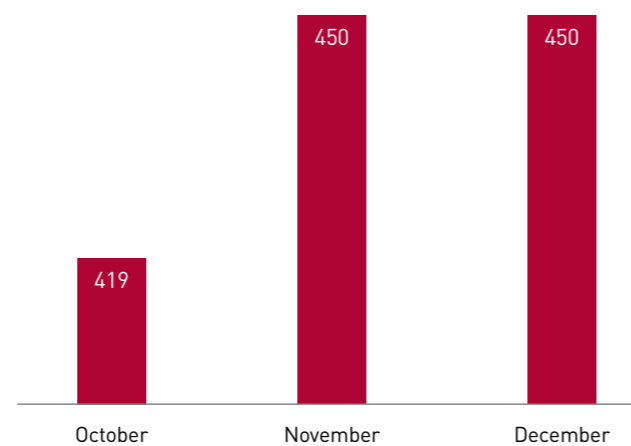
In October 2017, the Bank introduced a more advanced complaint resolving process. For the purposes of centralised input and reporting, the Bank developed a special application called Kontakti (Contacts) that supports multi-stage resolution and includes the matrix of responsible persons. Through these process improvements, the Bank reduced the time for a resolution and response to 3.12 days

The Bank adheres to the principle that each complaint should be resolved in the place where it was received. If it turns out that the complaint cannot be resolved immediately, the Kontakti application, based on the above-mentioned matrix, sends it automatically for resolution to the competent staff in the office responsible for the specific area. The systematic complaint resolving process implies substantial reduction of time. A short response time in complaint resolution enables the Bank to influence the level of customer satisfaction.

A new complaint resolving process was introduced to employees of the Bank at practical workshops, which were attended by 303 employees.

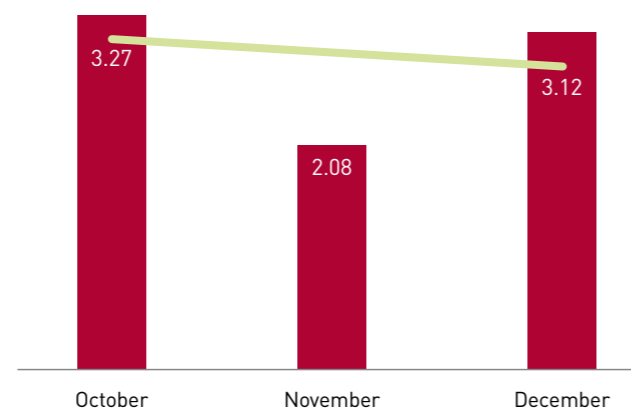
The graph below shows a rise in the number of complaints entered in November and October. A smaller number of complaints entered in October results from the introduction period or learning.

Graph 9: Number of complains



According to the law, the Bank is obliged to respond to the complaint within 7 business days. The Bank further reduced this time, i.e. to 4 days. According to the most recent data, the Bank is even more effective in complaint resolutions, as it manages to resolve them in 3.12 days, implementing thus its commitments to excellence.

Graph 10: Average time to answer to a customer



**BY THE REVISED PROCESS,
THE COMPLAINT
RESOLUTION TIME WAS
REDUCED TO 3.12 DAYS**

STRENGTHENING FINANCIAL LITERACY AND CORPORATE ADVICE

The Bank carried out through the Business Centre 4 on-site workshops, i.e. in Nova Gorica, Kranj, Ptuj and Maribor. Regional chambers of crafts were involved in Ptuj and Maribor events. In Murska Sobota, the Bank carried out business breakfast in cooperation with PGZ. In total, about 120 entrepreneurs or representatives of small and medium-sized enterprises attended the events.

WORKSHOPS TO STRENGTHEN FINANCIAL LITERACY FOR 120 ENTREPRENEURS IN NOVA GORICA, KRANJ, PTUJ, AND MARIBOR

Participants were trained in various topics useful for their operations. The contents were adapted also to the needs of the local environment. At the events, entrepreneurs were trained in the following topics:

- How to provide for an effective presentation and online presence
- Successful sales – how to use opportunities offered to us?
- Risk assessment in corporate lending
- A leader as a source of endless energy and commitment
- Financial planning and optimisation of tax operations
- How much is my business worth and how to increase its value?

**BY PARTICIPATING AT
HACKATHONS, THE
BANK STRIVES TO
ENCOURAGE FINANCIAL
AND TECHNOLOGICAL
INNOVATIONS AND
ESTABLISH COLLABORATION
WITH START-UPS**

PROMOTING INNOVATIONS

In cooperation with the Entrepreneurship Research Institute, the Bank carried out in 2017 the second Financial Hackathon, gathering almost 50 innovative individuals working in teams to seek new, advanced solutions for upgrading or developing new banking products or services based on the state-of-the-art information technology. Participants were creating in 15 teams. Eleven teams presented their ideas, and the best three were rewarded by the Bank. By participating at hackathons, the Bank strives to encourage financial and technological innovations and potentially establish collaboration with start-ups. An example of a successful link with a start-up was the upgrade of the mobile bank service mBank@Net carried out by the Bank in 2017.



The Bank strives to encourage innovations and potentially establish collaboration with start-ups.

SIMPLIFYING THE CREDIT OFFER

In 2017, the Bank provided for the credit offer optimisation, while intensively developing a new tool that will enable borrowers to take loans faster and in a simpler way in 2018. The Bank is also involved in the simplification of its pricing policy with the aim of making it even more understandable, transparent and simple to its customers.

10.3 / SUPPLIERS

Suppliers are considered strategic stakeholders of the Bank's Group. Due to its size, the Bank can achieve synergy effects through sustainable and socially responsible management of these relationships. In this regard, there are not only economic interests of the Bank that count, but also socially responsible and sustainable impacts, which the Bank's suppliers can contribute to a wider societal well-being in cooperation with the Bank.

CENTRAL PROCUREMENT DEPARTMENT CHANGED THE PROCUREMENT PROCESS IN 2017 WITH AN AIM TO OPTIMISE THE NUMBER OF SUPPLIERS

In 2017, the Bank established the Central Procurement and Cost Management Department. The newly established Department has changed the procurement process; it is involved in the procurement of smaller values, working actively in the procurement, and carrying out the procurement process in order to manage costs and suppliers.

Guidelines and objectives of the Bank's strategy are based on achieving efficiency, cost-effectiveness, and management of costs, suppliers, and contracts. Based on that, the newly established Department set up a new procurement process, defined procurement categories, actively participated in drafting the 2018 plan, carried out inquiries, negotiated, and reported. In this area, the Bank pursues the goals of optimising the number of suppliers, increasing the volume, and building partnership relations. Through managing supplier contracts, the Bank ensured a possibility to monitor the situation and changes in the market, and to facilitate respective adjustments.

Under the procurement process, the Bank carefully selects suppliers, working with departments of the Bank, while taking care of entering into relationships with trustworthy suppliers that respect the rules of conduct, ethical standards, and the values of the Bank.

At the beginning of 2018, the Bank will put in place an application that will support the procurement process, from the purchase proposal to payment of invoices. By doing so, the Bank will optimise its purchasing process in terms of time, while providing users with a better overview and control over costs, suppliers, and contractual relationships.

10.4 / MEDIA

The Bank pays proper attention to its relations with media. Relevant departments in this area provide media with adequate support for implementing their task of ensuring objective reporting and the public's right to information. In 2017, the Bank continued its fair cooperation with media. It encouraged positive and neutral presence of the Bank in media and understanding of banking contents by providing regular responses to journalists' enquiries, socially responsible contents, and through proactive recognition and communication of more complex topics.

The downward trend in the number of publications continued also in 2017. The analysis covering publications about the Bank in printed and electronic media (TV, radio, web portals, without social media) recorded 3,900 publications, which is by 27 % below the figures for 2016.

The Bank participated in 2017 at four press conferences of its business and sponsored partners, regularly prepared press releases for media and public announcements, responded to journalists' questions, communicated regularly with the public, and strengthened its relationships with key journalists.

The topics with a significant media coverage included taking up a duty by the new President of the Management Board, merger of Nova KBM and KBS banka, acquisition of Summit Leasing Slovenija, sponsorship projects, publication of strategic business decisions related to the optimisation of the business network and the centralisation of some backing companies, and the announcements of the Bank's operations during the period when it was not yet under the auspices of the new owner.

The Bank assessed efficiency of its relations with media by regular monitoring its press coverage, by conducting daily analyses of the contents, and by detailed analyses of the quality and quantity of relevant publications. In 2017, the share of positive and neutral publications prevailed in the structure of all media publications.

10.5 / LOCAL COMMUNITIES

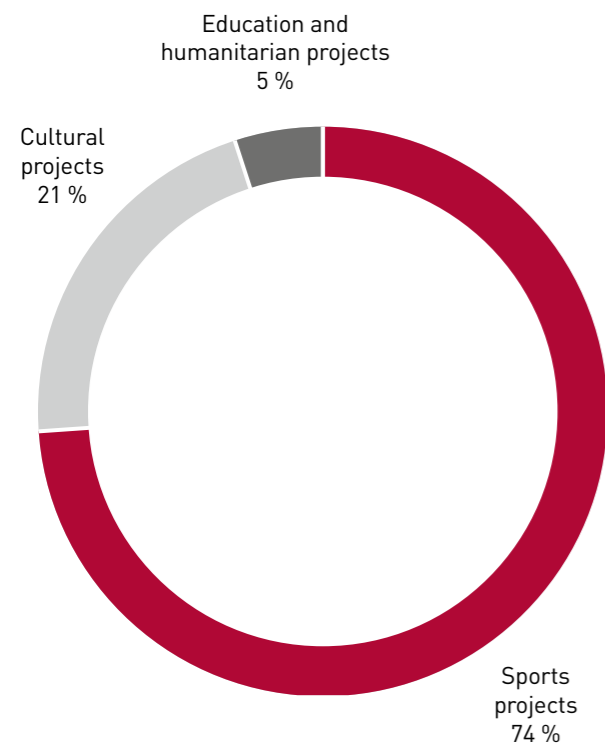
Local communities are facing ever-increasing challenges. Global and European trends impose increasing responsibilities on local communities, which is why they need development partnerships. In this context, the Bank is aware of its importance and responsibility as a business institution to the wider society and the local environment. In spite of the change in ownership, the Bank remains an active supporter of the environment where it operates. In 2017, the Bank supported humanitarian projects, non-profit organisations, societies and organisations in the fields of sport, culture, health and humanitarian activities.



The Bank is a proud sponsor of the Slovenian Basketball League.

The Bank allocated more than 73% of funds for sponsorship and donations to multi-year sponsorship projects in 2017. The Bank allocates 74 % to sports projects, 21 % to cultural projects, and 5 % to education and humanitarian projects.

Graph 11: The Bank's funds for sponsorship and donations



Larger sponsorships and donations carried out in 2017 at regional, national or international level are highlighted below.



The Bank supports young athletes

THE BANK SUPPORTS IN SPORTS:

- The Sports Society of Nova KBM
- The Slovenian Basketball League, and the men's and women's national basketball teams
- Slovenian biathlon national team
- The World Cup in ski jumping in Planica



- The World Cup in women's giant slalom for the Golden Fox Trophy, and the international competition of talented young skiers called Little Fox
- Ljubljana Marathon international sports event
- Multiple national champions in football (Maribor Football Club) and volleyball champions (Nova KBM's Volleyball club)

THE BANK SUPPORTS IN CULTURE:

- International Lent Festival in Maribor
- SNG Maribor and Nova Gorica
- Festival Ljubljana
- Nova KBM's Cultural and Artistic Society

THE BANK SUPPORTS IN EDUCATION AND HUMANITARIAN ACTIVITIES:

- Entrepreneurship Research Institute
- PODIM International Start-Up Entrepreneurs Conference
- Workshops for the development of financial and technological innovations (Hackathon, Podim Challenge)

THE BANK SUPPORTS IN HUMANITARIAN ACTIVITIES:

- The Botrstvo Project, led by Zveza prijateljev Mladine Moste-Polje

At the end of 2017, the Bank allocated the funds earmarked for business gifts to charity. The Bank allocated funds to the scholarship fund of the Botrstvo Project, which promotes young athletes from socially deprived families. By its donation, the Bank supported annual scholarships for 6 children, which will enable them to participate in sports trainings and purchase sports equipment. Three children will be provided with a possibility to participate in Goran Dragič Basketball Camp.

OTHER SPONSORSHIP ACTIVITIES IN THE NOVA KBM GROUP

KBM Infond, družba za upravljanje vzajemnih in investicijskih skladov, cooperates with Red Noses Clowndoctors, an organisation that brings a smile and an incentive to hospitals. For 15 years, the Bank has been supporting by donations also youth programmes of Atletski klub Poljane, and the Paraplegics Society of Severna Štajerska in organising the Parabasket International Tournament.

KARIDIA TOURE ZAGRAJŠEK

Public Relations and Corporate Communications
Department Director



"Social Responsibility and Sustainable Development is a strategic framework under which the Bank manages relations with its key stakeholders. In 2017, we consolidated the SRSD management policy in the Bank and implemented numerous measures, projects, and other types of cooperation that have contributed to the development of the internal and external environments. All these achievements result from systematic and teamwork. Moreover, achievements reflect the ever increasing personal responsibility of employees about the fact that just everyone, through their decisions and conduct, enables the Bank to fulfill its goals and acts in a responsible manner and to be committed to sustainable development."



The Nova KBM Group recognised among its strategic stakeholders also the natural environment. Since the Bank, as a service provider, wants to act in a sustainable and socially responsible manner also in this area, it has identified its impacts on the natural environment. The biggest impacts that can be managed by the Bank include energy, the use of resources, and banking products that can stimulate responsible management of the natural environment by other entities present on the market.

11.1 / ENERGY

Energy management is a vast field, as the Bank's business activity is geographically dispersed. The key areas of the Bank's energy management include efficient use of energy and sustainable mobility.



ENERGY PRODUCTS

The Bank has a central control system set up at 9 locations, through which it monitors energy efficiency and acts in case of deviations from the parameters set.

The Bank's total energy consumption amounted in 2017 to 11,851,760 kWh, of which almost 70 % accounted for electricity. The remaining portion is predominantly taken by gas for heating.

At the end of 2017, the Bank launched a project related to the Energy Act, which came into force on 1 January 2018. In the course of this year, the Bank will carry out measurements to obtain reports on the energy status of each facility.

The reports and findings obtained will provide the Bank with a basis for improving the energy efficiency in individual facilities, or enable it to prepare proposals for improving energy performance of facilities.

VEHICLE FLEET

The Bank intends to manage internal mobility in accordance with the values of sustainable development, therefore it encourages employees to share official cars, combine business routes, and use buses at major events organised by the Bank. In 2017, the Bank used 62 vehicles. The average age of vehicles is 5 years. In 2017, the volume of fuel used for the needs of official and combined, i.e. official and private journeys amounted to 57,200 litres, of which 52,700 litres of diesel and 4,500 litres of gasoline. Official cars are used on average 3 days a week, while vehicles in mixed, i.e. official and private use are used daily.

11.2 / PAPER CONSUMPTION AND ENVIRONMENT-FRIENDLY PRINTING

As the Bank is a service company, its largest consumption of primary raw materials relates to the consumption of paper; and at the same time, its activity requires considerable amount of printing, which is why the Bank manages these two segments in strategic terms.

Based on the list of the most frequent forms needed by the Bank in its daily operations with customers, and the data about letters sent to customers, the Bank estimates that 119 tons of paper were used up in 2017.



In 2017, the consumption of paper per customer was 3.96 kg.

Compared to 2016, the consumption increased cumulatively by 17 % as a result of intensive communication with customers arising from legally binding notifications about the merger with KBS banka, and the changes in banking services and products, tariffs, and general terms. Higher consumption also results from the expansion of the sales network, including in post offices. Consequently, the Bank used in 2016 in average 5 kg of paper per customer, while in 2017 the consumption of paper was 3.96 kg per customer.

BY THE SUSPENSION OF SAVINGS BOOKS, PAPER CONSUMPTION WAS REDUCED BY 1.4 TONS

In December 2017, the Bank suspended the use of savings books and, consequently, reduced the consumption of printing paper by 1.4 tons compared to 2016.

In its operations, the Bank uses paper for printing, copying and scanning. By the last quarter of 2017, the Bank cooperated with a specialised company that collects and recycles used toner cartridges. During this period, the Bank recycled 1677 pieces of waste toner

cartridges in the total amount of 788 kilograms. 13 % of collected waste toner cartridges were refurbished and prepared for re-use. The Bank donates a portion of the proceeds from the sale of waste materials still having a market value to the organisation Sonček, the Cerebral Palsy Association of Slovenia, for charity purposes.

OPTIMISED PRINTING INFRASTRUCTURE

PRINTING INFRASTRUCTURE WAS RENEWED AND OPTIMISED BY ENVIRONMENTALLY ADVANCED MULTIFUNCTIONAL DEVICES

In the last quarter of 2017, the Bank renovated its printing infrastructure. The Bank introduced a new centralised printing system in order to optimise printing, increase the transparency of printing among organisational units, and improve the security of document printing, copying, and scanning. The Bank replaced 452 printers with 384 multifunctional devices and introduced card printing, which enables optimised management on any device. Through this measure, the Bank reduced the number of devices by 12 %.

New devices are more environment-friendly, as they consume 50 % less energy than conventional toners for the process of toner heating. These devices have the Blue Angel eco-label, one of the most prestigious eco-labels in the world, and the Energy Star specification for energy-efficient devices.

They use no organic solvents in the production of toners, which reduces harmful effects on the environment. These cassetteless printing devices generate a smaller amount of waste and provide for lower costs.

11.3 / SEPARATE COLLECTION OF WASTE

Separation of waste materials at source is a key element of circular economy. The Bank has been conducting separate collection of waste for many years, which depends on ordinances of individual municipalities and their concessionaires. 100 % of non-hazardous waste, which is separately collected and disposed of, is sent to recycling.

11.4 / RESPONSIBLE INVESTMENT IN GREEN BOND

In 2017, Slovenia received its first green bond issued by GEN-I Sonce d.o.o. (GES1 code). It is a new financial instrument developed by GEN-I Sonce d.o.o. SID Bank also participated in the project, and indirectly as an investor, also our bank. The Bank invested in green bond the amount of €5 million with a maturity date until 2024.

THE BANK INVESTED IN GREEN BOND THE AMOUNT OF €5 MILLION. BY 2024, THE FINAL ENERGY SAVINGS WILL AMOUNT TO 22,190,000 kWh/year

The green bond brings to the Slovenian territory a new way of raising funds for projects that promote the production of electricity from renewable sources, increase energy efficiency, and enable a sustainable transition to a low-carbon society in accordance with socio-environmental principles. In accordance with these rules, funds raised through the green bond can be used for environmentally efficient products, technologies and

processes, pollution prevention and control, sustainable management of living natural resources, sustainable management of water sources, renewable energy, energy efficiency, and clean transport.

The green bond complies with the non-binding principles (GBP – Green Bond Principles) prescribed by ICMA (International Capital Market Association). In addition to the elements of the project bond with financial commitments, green bond also includes ecological commitments and is intended to raise funds for new or existing environmentally sustainable projects. GEN-I Sonce d.o.o. set up in 2017 about 300 domestic solar power plants for electricity self-supply.

BORIS ZALEZINA

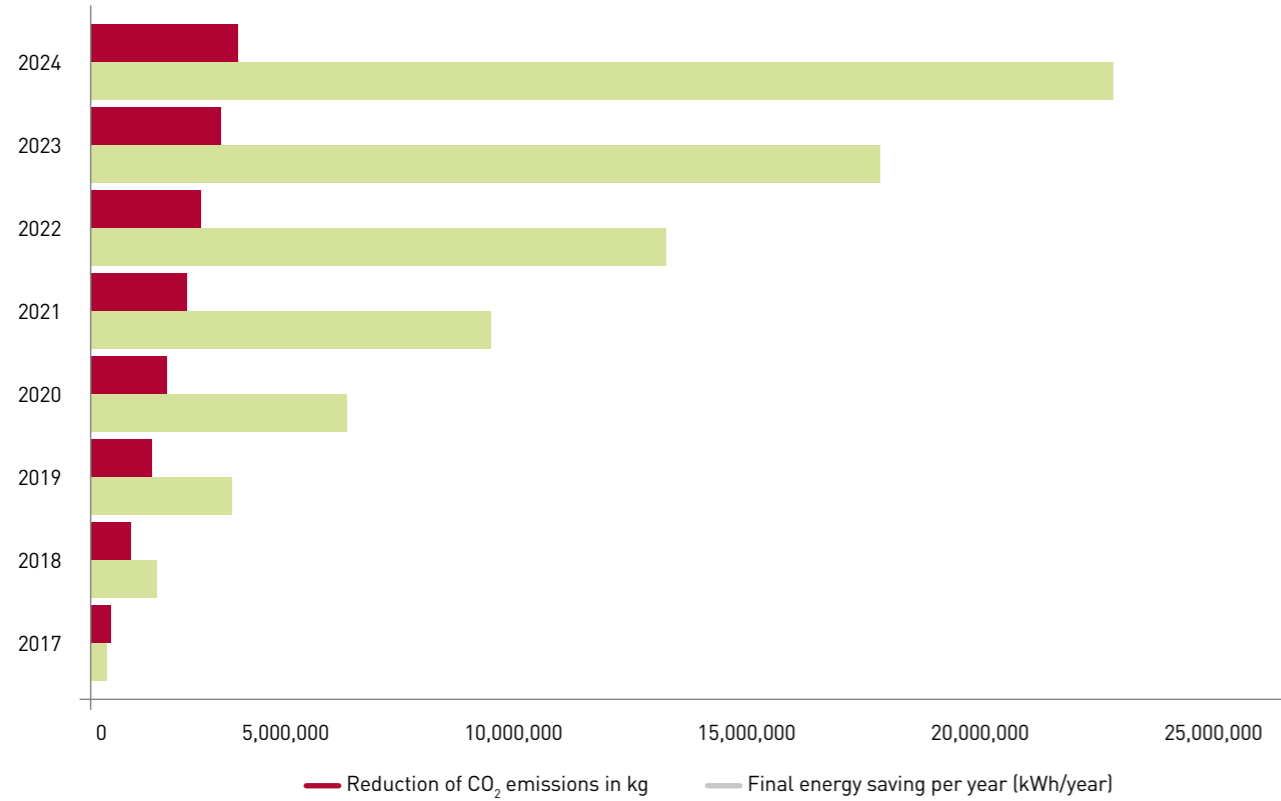
Director of Real Estate Management



„The Bank operates in a geographically diverse territory of Slovenia; therefore, efficient energy management is not only cost-effective, it also improves the environmental footprint and environmental management. In the context of introducing continuous care for the environment, the Bank is engaged in reducing the amount of waste generated and waste recycling, and is continuously reducing the consumption of energy products and natural sources (electricity, water, natural gas, etc.). As a socially responsible organisation in managing the resources, which are of key importance for its operations, the Bank follows the guidelines on the use of environmentally friendlier devices, optimisation and sharing of various sources. Moreover, the Bank considers important its role in educating and raising awareness about environmentally acceptable behaviour among its employees and in a broader public.“

The bond issuer has undertaken to enable through its operations the attainment of the following environmental goals:

ENERGY SAVINGS AND REDUCTION OF CO₂ EMISSIONS



12/

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This report has been prepared in accordance with the GRI Standards: Core option.

PERSONS RESPONSIBLE FOR REPORTING

Compliance Office	Simon Tantegel, Director
Human Resources Development Department	Rok Zupančič, Procurator
Central Procurement and Cost Management Department	Tomaž Špiganovič, Director
Real Estate Management	Boris Zalezina, Director
Physical and Information Security Management Department	Božidar Dajčman, Director
Operating Risk Management Department	Stojan Hostnik, Director
Sales Support Centre	Branka Vujanovič, Director
Customer Satisfaction Management Office	Yasemin Altinyay, consultant for customer satisfaction management
Marketing Department	Klavdija Novak, Director
Public Relations and Corporate Communications Department	Karidia Toure Zagrajšek, Director
Alternative Sales Channels Department	Mateja Kline, Director

MANAGEMENT BOARD STATEMENT ON NON-FINANCIAL OPERATIONS

Nova KBM's Management Board d.d. declares that the annual business report includes a report on non-financial operations needed to understand the development, performance and the position of the Bank and the impact of its activities. Non-financial report contains information on environmental, social and employee matters, respect for the human rights and the issues relating to fighting against the corruption and bribery.

The described model is based on the Code of Conduct (it defines risks in the field of corporate integrity comprising the risks of disrespect of human rights and the risk of corruption and bribery) and the Bank's strategy.

The Nova KBM Group Policy on Corporate Social Responsibility and Sustainable Development is linked to all policies, strategic and implementing documents and other internal regulations of Nova KBM d.d. (Nova KBM's Code of Conduct, Reputation Policy, Anti-Corruption Policy, Compliance Policy, Procurement Policy, Employee Development Policy, etc.).

The content of the Policy of Corporate Social Responsibility and Sustainable Development encompasses all the strategic stakeholders of the Bank and defines the direction of the efforts, plans, practices and relations managed by the Bank. In the area of corporate social responsibility and sustainable development, the Bank includes risk management, in particular through reputation risk management, operational risk management and business compliance.

The scope and areas of disclosing key non-financial performance indicators, relevant to our business and corporate social responsibility, were carefully examined and prepared by using the GRI standard methodology.

The report on non-financial operations is a separate and comprehensive document, which enables interested public to understand the essential dimensions of the development, performance and position of the Bank and the impact of its activities.

Management Board

Josef Gröblacher,
Member

Sabina Župec
Kranjc
Member

Jonathan Locke
Member

Robert Senica
Deputy

John Denhof
President







Project coordinator in the field of sustainability: Simona Roškar, communication adviser
Project director: Karidia Toure Zagrajšek, Director of Public Relations and Corporate Communications Department
Expertise and content, reporting model: Fit media d.o.o.
Photos: Mediaspeed, Pixabay, 4-designer, Nenad Vučić, Bank's archives
Maribor, April 2018

