



# Sustainability and ESG in the NLB Group

16th November 2023

Sustainability, Strategy and Business Development

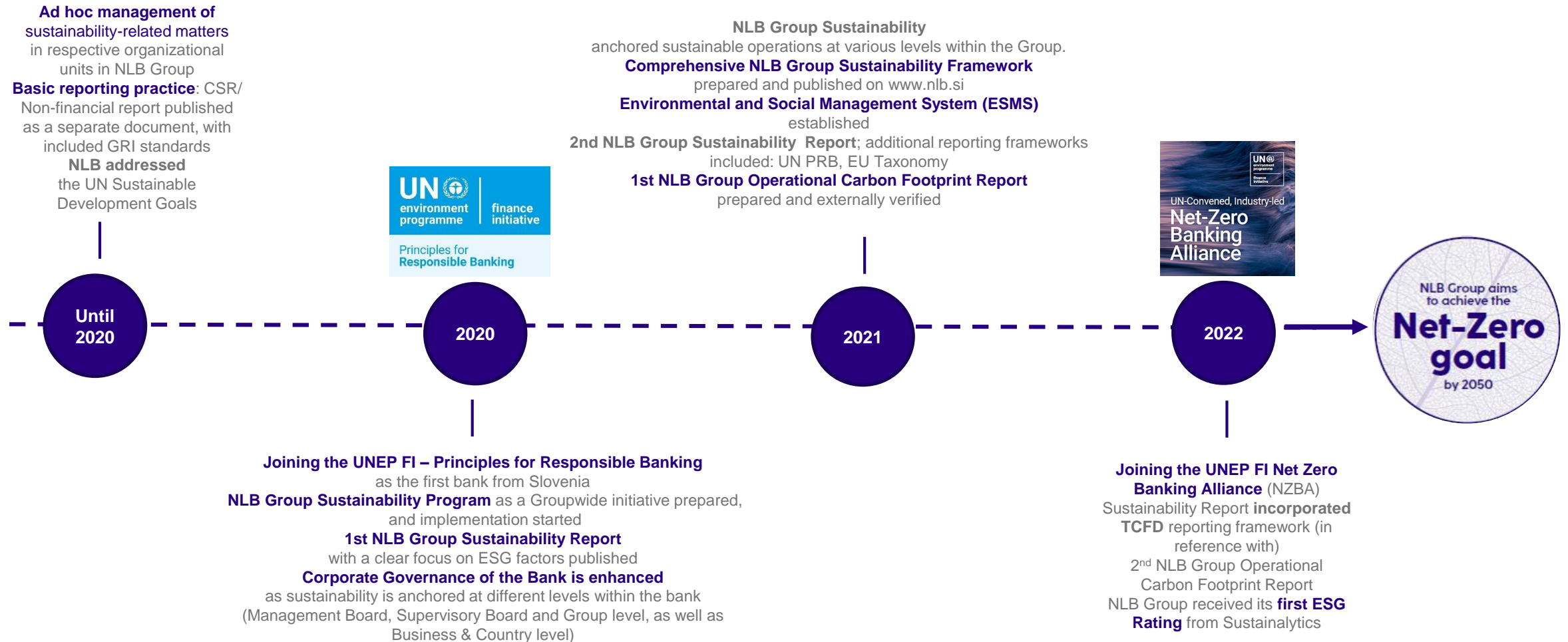
# Agenda

## Kakšen je ogljični odtis NLB – družbena odgovornost in trajnostni razvoj:

- ✓ Kako bo NLB podprla gospodarstvo pri zelenem prehodu?
- ✓ Ali ste že verificirali izračun vašega ogljičnega odtisa?
- ✓ Kako so vaši ključni klienti sprejeli spremembe, ki jih uvajate z naprednimi projekti na področju trajnostnega poslovanja?
- ✓ Ali načrtujete kakršnekoli spremembe vaših poslovnih modelov zaradi vse večjih zahtev po izkoriščanju obnovljivih virov energije, izkoriščanju odvečne toplote in povečanja energetske učinkovitosti (krožno gospodarstvo)?
- ✓ Ali že upoštevate ogljični odtis pri financiranju konkretnih projektov?

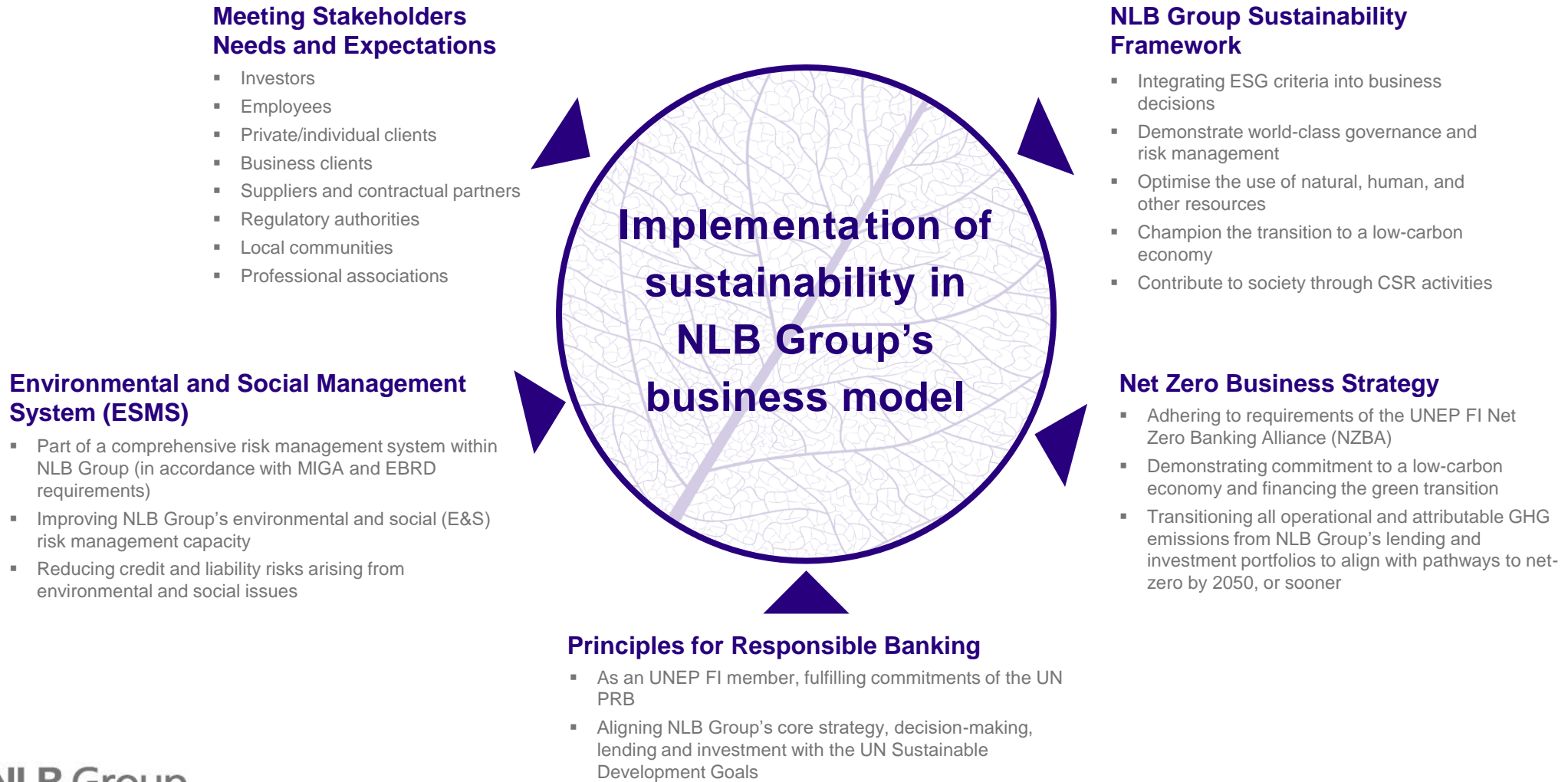
# NLB Group Sustainability Journey

- Our sustainability journey focuses on tackling environmental, social and governance considerations, aiming to one goal – empower all stakeholders for successful transition to low carbon, inclusive, just and sustainable future.



# Overview of NLB Group Sustainability Strategy

- NLB Group actively contributes to a more balanced and inclusive economic and social system. Our sustainability roadmap encompasses decisive approach, strategic pillars and comprehensive sustainability framework, supported with clear actions.



# Three Pillars of NLB Group Sustainability

- Within the Sustainability Framework three main pillars of sustainable development are defined which set the broader strategic agenda for implementing sustainable elements in the business model and operations group-wide.



## Sustainable Operations

- Managing our direct environmental and social impacts while ensuring ethical and efficient operations.
- Measuring, managing and reporting our direct ESG impact in line with recognized international standards and initiatives.
- Implementing measures to reduce our environmental footprint.
- Ensuring inclusion of the ESG elements at all stages of the procurement life cycle.
- Responsibility to employees: capabilities development, talent retention and development, diversity & inclusion, health and safety.
- Responsibility to clients: responsible marketing, customer experience.



## Sustainable Finance

- NLB Group net zero business strategy
- Integrating the ESG regulatory framework, relevant standards, and criteria into our business and investment decisions.
- Supporting UN Sustainable Development Goals through financing and investing activities, new products and services.
- Managing climate-related and environmental risks as well as searching for business opportunities emerging from transition to a low-carbon, more inclusive, and circular economy.
- Supporting clients in their own low-carbon business transformation and reorienting capital flows in direction of green transition.
- Treasury operations
- Green bond framework development
- ESG score & rating



## Contribution to Society

- Active contribution towards wider socio-economic development with a focus on the local communities where we operate.
- CSR activities (aligned with UN SDGs) in key areas:
  - Financial literacy and Inclusion
  - Humanitarian
  - Cultural heritage
  - Sports
  - Entrepreneurship
  - Environmental protection etc.

# Operational Carbon Footprint - GHG Emissions Reduction

Operational carbon footprint calculation for NLB Group, 2019–2022

NLB Group	Baseline 2019	2020	2021	2022	2022/2021	2022/2019
Scope 1 [t CO2]	3,736	3,408	3,831	3,404	89%	91%
Scope 2 [t CO2]	29,340	32,000	29,741	12,611	42%	43%
Scope 3 [t CO2]	4,632	3,761	3,093	3,891	126%	84%
Scope 1-2 [t CO2]	33,077	35,408	33,572	16,015	48%	48%
Scope 1-2/emp. [t CO2/emp.]	3,761	4,082	3,983	1,899	48%	50%
Scope 1-3 [t CO2]	37,708	39,169	36,665	19,906	54%	53%
Scope 1-3/emp. [t CO2/emp.]	4,288	4,515	4,350	2,360	54%	55%
No. of employees	8,794	8,675	8,428	8,433	100%	96%

**In 2022, total Scope 1, 2 and 3 emissions of NLB Group accounted for 19,906 t CO2, which is 46% reduction compared to 2021.**

- **NLB Group followed the commitment to increase its positive operational environmental impacts, and reducing the adverse ones.**
- **Included in the measurement:** Scope 1, Scope 2, and Scope 3 (limited inclusion: paper and water use, waste, business travel, employee commuting, and without Category 15 – financed emissions).
- Emissions from **Scope 1 and 2** amounted to 16,015t CO2, **52% reduction from 2021.**
- Main reason for significant reduction of CO2 emissions in 2022 was due to the fact that **100% electricity was purchased from (low) zero-carbon sources in two largest and most material entities in NLB Group** (parent bank NLB and NLB Komercijalna banka Beograd).
- Thus, the Group has increased the percentage of renewable electricity sourced for our operations to almost 70% at the Group level, and it is approaching the target to reach 75% by 2030.

Notes:

- (1) In 2022, accuracy adjustments were made due to revised energy consumption in one of the entities for 2019-2022, hence minor deviations in total Scope 1 to Scope 3 ( 2% for 2019 and 2020, and 0,1% for 2021) from the prior report.
- (2) In 2022 NLB acquired N Banka, whereas merger of both entities is planned in 2023. N Banka's carbon footprint has only been calculated for 2022 and not for prior years to provide baseline 2019 data. The reasons for this decision are data scarcity, and low impact of N Banka (due to size, employee number and facilities) to total carbon footprint emissions, which is estimated to less than 2% of data in baseline year.
- (3) Note that Komercijalna Banka Beograd was included in reporting of GHG emissions also for 2019 and 2020, despite becoming part of NLB Group in 2021. However, GHG Protocol suggests recalculating baseline year in case of structural changes, therefore, data for Komercijalna Banka was included in this report.

# NLB Group Commitment to the UN Principles for Responsible Banking

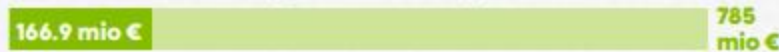
- NLB Group prioritized 3 key impact areas and announced 4 key targets.

## Impact areas, publicly announced targets, and target achievements

### Impact area **Climate**

#### Publicly announced target by 2030

By the year 2030, the volume of new sustainable corporate financing in the NLB Group will be at least 785 mio EUR.



#### Target achievements in 2022

By year 2022 the NLB Group has implemented 166.9 million of new sustainable corporate financing.

#### Publicly announced target by 2030

By the year 2030, 75% of all electric energy used in the NLB Group will come from zero-carbon sources.



#### Target achievements in 2022

At the end of 2022 we are currently already approaching 70% of all electricity used by NLB Group purchased from zero carbon energy source, 100% in Slovenia and Serbia respectively.

### Impact area **Resource efficiency / security**

#### Publicly announced target by 2030

By the year 2025, the NLB Group will decrease the number of paper prints in its operations by 50% compared to the year 2019.



#### Target achievements in 2022

By the year 2022 the NLG Group decreased the number of paper prints by 43% compared to 2019

### Impact area **Inclusive & healthy economies**

#### Publicly announced target by 2030

By the year 2025, the share of active digital retail users in the NLB Group will be 55%.



#### Target achievements in 2022

Share of active digital retail users in NLB Group in 2022 is 40.1%<sup>4</sup>

<sup>4</sup> The target and progress data do not include NLB Komercijalna Banka Beograd and N banka as the target was set in 2021 before the merger of NLB Banka Beograd with Komercijalna banka Beograd in April 2022, now operated under NLB Komercijalna banka Beograd, and the acquisition of N banka in March 2022, which is planned to be merged with NLB d.d. in 2023. Consequently, target and progress data will be adjusted to include a comprehensive view on NLB Group.

[nlb.si/sustainability\\_report\\_2022.pdf](https://nlb.si/sustainability_report_2022.pdf)

# Sustainable economic activities promoted by the NLB Group

[nlb-sustainability-framework.pdf](#)

Renewable Energy	Energy Efficiency	Sustainable Transport	Pollution Control and Recycling
<ul style="list-style-type: none"> <li>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)</li> <li>sustainable mobility and innovative transport methods</li> <li>development of technology and infrastructure required for higher and more efficient penetration of renewable energy resources</li> <li>sustainably sourced renewable materials</li> <li>processes and infrastructure that facilitate recycling of natural resources and waste</li> </ul>			
Sustainable Agriculture and Food Production	Sustainable Forestry	Sustainable Aquaculture and Fisheries	Sustainable Water Management
<ul style="list-style-type: none"> <li>responsible and sustainable sourcing and forest management activities</li> <li>reduction of methane or other GHG emissions by supporting sustainable management of livestock</li> <li>development of low-carbon agricultural technologies that improve productivity and efficiency</li> <li>sustainable management of living natural resources and land use</li> <li>development of technologies that facilitate maximum use of waste, recycling and separation of materials</li> <li>improvements in drinking water management and distribution, sanitation, wastewater management and water recycling</li> </ul>			
Circular Economy	Economic and Social Inclusion	Affordable Housing and Basic Infrastructure	Health and Education
<ul style="list-style-type: none"> <li>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</li> <li>process and product innovation and supporting development of sharing business models</li> <li>achieving GHG reduction through improvements in supply chains</li> <li>use of information and communications technology solutions (digitalization) for purpose of collecting, transmitting, storing, and using data to facilitate GHG emission reductions</li> <li>supporting education and health facilities and programs</li> </ul>			

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.

# ESG exclusion list: economic activities that NLB Group is not financing

[nlb-sustainability-framework.pdf](#)

## 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 members<sup>1)</sup> will not knowingly finance to any of the following activities:

- **(NLB Group banking members<sup>1)</sup>) 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 members<sup>1)</sup>) 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 members<sup>1)</sup>) Production of or trade in alcoholic beverages** (excluding beer and wine).<sup>2)</sup>
- **(NLB Group banking members<sup>1)</sup>) Production of or trade in tobacco.**<sup>2)</sup>
- **(NLB Group banking members<sup>1)</sup>) Gambling, casinos, and equivalent enterprises.**<sup>2)</sup>
- 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 members<sup>1)</sup>) Commercial logging** operations for use in primary tropical moist forest.<sup>2)</sup>
- **(NLB Group banking members<sup>1)</sup>) Production of or trade in wood or other forestry products** other than from sustainably managed forests.<sup>2)</sup>
- 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.

**When financing micro-finance activities NLB Group banking members' 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.

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

<sup>2)</sup> 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.

# Environmental and Social Management System (ESMS)

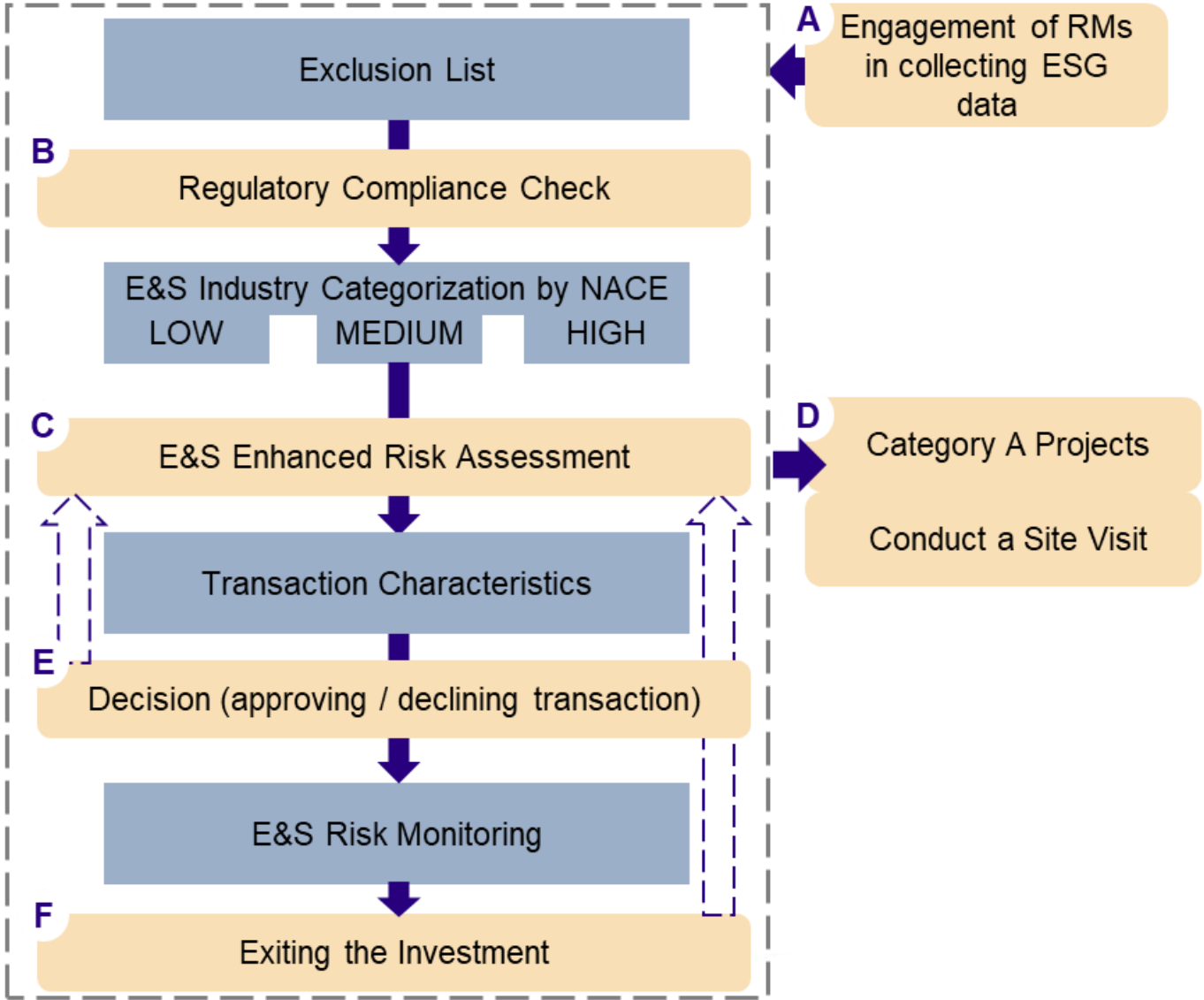
NLB Group has established Environmental and Social Risk Management System (ESMS), **a comprehensive risk assessment and monitoring mechanism**, which is fully embedded in NLB Group’s loan origination and monitoring. The main objectives of ESMS are to identify and manage a NLB Group’s exposure to the ESG risk of its clients, and to promote their good environmental and social business practices.

- Primary ESMS Process
- Main Process Control Points / Gates



ESMS SYSTEM IS EMBEDDED IN LOAN ORIGINATION AND MONITORING

## NLB Group-wide Environmental & Social Management System



# Comprehensive environmental, social, governance (ESG) risk screening or due diligence process in NLB Group

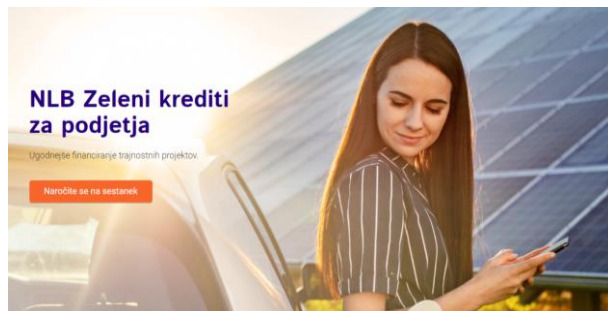
1. **Collection of ESG data** is embedded in established **KYC (know your client) rules and procedures**, hence initial clients data are provided by the first line of defence staff.
2. After ensuring that the transaction is not included on **the exclusion list**, Regulatory Compliance checks and verifies if the client is adhering to the applicable laws, regulations, and standards.
3. If the transaction is classified with high environmental or social risk, a strict deviation management process is in place that ensures further **enhanced risk assessment**. Classification and thresholds for applying enhanced risk assessment and further due diligence processes are defined in detail.
4. During a project's lifetime, **regular ESG risk monitoring** is established to assess the impact of each risk and create a strategy for its mitigation. It is thereby ensured that risks are being adequately addressed and that any changes or newly emerged risks are identified and addressed promptly.
5. If the client fails to comply with the investment's ESG requirements, we assess the situation and determine the best course of action. This could include **exiting the investment or taking steps to mitigate the risk of non-compliance**. Potential financial losses or legal consequences are considered, as well as any potential reputational damage to NLB Group. We also take into consideration our overall Sustainability and ESG strategy and how exiting the investment may affect our ability to meet our sustainability goals.

# Sustainable Finance

- Since the introduction of the first green financing offer (NLB Green Housing Loan) in 2020, the Group continues to strengthen its sustainable finance proposition with sustainability-related financing for private individuals, micro, SME and large corporate clients

## Corporate clients (Large, SME, Micro, crossborder)

- NLB Group generated **new green loan volume** in the amount of **€166,9m** in 2022
- NLB Group has supported clients with green loans for the purpose of financing **wind farms, solar projects, biomass projects and energy efficient buildings, environmental friendly, sustainable agriculture, circular economy solutions**
- Our efforts have resulted in **several larger project financings**, including residential real estate in Bosnia and Herzegovina and a large renewables projects in Serbia
- **Several regional clients events** were executed, aiming to increase knowledge and strengthen the awareness, as well as empowerment, of corporate clients



## Private individuals

- NLB Group generated **new green loan volume of over €53m** in 2022
- NLB continued to support clients in green transition with already established green finance products and introduced:
  - NLB Green **Housing Loan**; and
  - NLB Green Partner Loan to finance the **construction of turnkey solar power plants, power storage, environmentally friendly transport and heat pumps**

## New products for legal entities

NLB introduced in 2022 three new green loan offers for legal entities (Micro and SME):

- NLB Green partner loan to finance the construction of turnkey solar power plants
- NLB Green Loan for investments in the energy efficiency of business buildings
- NLB Green Loan for reducing the carbon footprint, that cover the area of energy efficiency, circular economy and sustainable agriculture

Fizične osebe: [Zeleni kredit \(nlb.si\)](https://nlb.si)

Pravne osebe: [NLB Zeleni krediti za podjetja](https://nlb.si)

## Asset management (funds)

**NLB Funds, asset management** (hereinafter: NLB Skladi) as a member of NLB Group, **offers two sub-funds** which promote environmental and social characteristics and adhere to Article 8 of Regulation SFDR ((EU) 2019/20881)):

- **Sub-fund NLB Funds – Equity Socially Responsible Global Advanced Markets** promotes a combination of environmental and social characteristics provided that companies adhere to good governance practices. At the end of 2022, the fund managed a Net Asset Value in amount of **€42.191.704**
- **Sub-fund NLB Funds – Equity Environmental** promotes a combination of environmental characteristics provided that companies adhere to good governance practices. At the end of 2022, the fund managed a Net Asset Value in amount of **€6.957.077**



# NLB successfully appeared on the international financial markets with inaugural Green Bond issuance

## Green Bond issuance

The NLB issued green senior preferred bonds with a total nominal amount of EUR **500 million in June 2023**. With the funds raised, the Group's member banks intend to support projects positively impacting the environment. Green Bonds are an effective tool to highlight investments in assets with demonstrated environmental and potential social co-benefits, contributing to the achievement of the EU environmental targets and UN SDGs.

### Green Bond Framework

- Alignment with ICMA Principles
- Alignment with the EU Taxonomy Regulation

### NLB Green Bond Framework



#### NLB Green Bond Framework

May 2023



### Green Loan Eligibility Criteria

- Renewable Energy
- Green Building
- Energy Efficiency
- Clean Transportation
- Sustainable Water and Wastewater
- Management Pollution Prevention & Control

### Contribution to UN SDGs





Creating better footprints. For today.

NLB Group Annual Report 2022



Creating BETTER FOOTPRINTS



UN-Convened, Industry-led Net-Zero Banking Alliance



environment programme

finance initiative

Principles for Responsible Banking

