

# **Nova KBM and Nova KBM Group Compliance and Anti – Corruption Policy**

## TABLE OF CONTENT

<b>1. Introduction .....</b>	<b>4</b>
<b>2. Compliance Risk .....</b>	<b>5</b>
2.1. Definition .....	5
2.2. Relevant compliance areas .....	5
2.3. Group-wide implementation.....	5
<b>3. Roles and Responsibilities .....</b>	<b>5</b>
3.1. Control role of stakeholders in ensuring compliance.....	6
3.2. Bank management body, senior management, key function holders and other NKBM management.....	6
3.2.1. Management body of the bank / group.....	6
3.2.2. Second, third and fourth management level and key function holders .....	7
3.3. All staff .....	7
3.4. Compliance function .....	8
3.4.1. Bank Compliance Office .....	8
<b>4. Reporting lines .....</b>	<b>8</b>
<b>5. Activities of the Compliance function.....</b>	<b>9</b>
5.1. Advisory role.....	11
5.2. Communication of culture of compliance and integrity.....	11
<b>6. Cooperation of the Compliance function with other Internal Control functions and the Legal function.....</b>	<b>12</b>
6.1. Internal Audit.....	12
6.2. Legal .....	12
6.3. HR Development .....	12
6.4. Strategic Risk Management and Operational Risk Management .....	13
6.5. Information Security Governance.....	13
6.6. Anti-Fraud .....	13
6.7. Anti-Money Laundering .....	14
<b>7. Relevant Compliance areas managed by the Compliance Office .....</b>	<b>15</b>
7.1. Regulatory compliance .....	15
7.2. Anti-corruption and conflict of interest management .....	15
7.2.1. Conflict of Interest Management.....	16
7.2.2. Giving / acceptance of gifts, business meals, entertainment and sponsored travel	16
7.2.3. Donations and sponsorships .....	16
7.2.4. Prohibition of funding political parties and election campaigns.....	17
7.2.5. Prohibition of indirect payments .....	17
7.2.6. Prohibited and facilitation payments.....	17

7.2.7. Mergers and acquisitions/joint ventures/acquisitions of minority interests ....	18
7.2.8. Maintenance of books of account of business transactions .....	18
7.2.9. Recruitment and traineeship .....	19
7.3. Reputation management.....	19
7.4. Assessment of suitability of members of management bodies and key function holders (Fit & Proper).....	19
7.5. Data protection .....	19
7.5.1. Business secret .....	20
7.5.2. Personal data .....	20
7.5.3. Classified information .....	20
7.5.4. Public information.....	20
7.5.5. Data protection.....	20
7.6. Customer protection and anti-trust .....	20
7.6.1. Customer protection.....	20
7.6.2. Anti-trust.....	21
7.7. Procurement and licence compliance .....	23
7.7.1. Procurement compliance .....	23
7.7.2. Licence Compliance .....	23
7.8. Compliance of product development and monitoring.....	23
7.9. Financial instruments market and custody.....	23
7.10. Tax compliance (FATCA, CRS and DAC6) .....	24
7.11. Management of prohibited behaviour .....	25
7.11.1. Prohibited behaviour management programme .....	26
7.11.2. Prohibited behaviour triangle.....	27
7.11.3. Law enforcement authorities and courts.....	27

## 1. Introduction

The Bank and its operations are threatened by many threats arising from both the external and the internal environment, including compliance and integrity threats. The level and nature of threats change over time, and new threats arise as the Bank and the environment continue to develop and change. The likelihood that a threat will be fulfilled, including the potential harm caused by it, depends on the risks to which the Bank is exposed.

The Compliance Policy (hereinafter: the Policy) defines the relevant compliance and integrity requirements, which the Bank has to consider in taking and managing risks, and sets the bases for achieving its objectives.

### **Integrity and reputation are key assets of the bank / group**

The main goal of the Policy is to protect the fundamental values, integrity, ethics and reputation of the bank and its group. The bank / group achieves this goal through quality and efficient taking and management of all risks that may endanger its reputation, cause financial damage, lead to legal or regulatory sanctions or affect its employees, customers, service providers, suppliers, shareholders and any other stakeholders cooperating or wishing to cooperate with the bank or group.

The Policy is based on a series of legal regulations, decisions, resolutions, codes, recommendations, positions and good practices.

### **The Management Body shall lead by example (“Tone at the Top principle”)**

The Management Body shall lead by example and shall adopt relevant actions to ensure that all business activities are compliant with applicable laws, requirements of the supervisory bodies (the Bank of Slovenia, the European Central Bank, the Securities Market Agency, etc.), rules and regulations (both internal and external), arrangements, prescribed practices or ethical standards as set out in the Code of Conduct of Nova KBM d.d. and the Nova KBM Group.

The management body shall be responsible for supervising the implementation of this Policy and shall ensure that all management levels, with the assistance of independent compliance function holders, competently and effectively provide for the compliance and integrity of the Bank’s operations.

### **All staff must observe and comply with the Policy**

The Policy must be complied with by all employees as well as the management body of the bank / group. It must be implemented in an agreed manner and in accordance with business, legislative and regulatory requirements.

### **The compliance function is a control function**

The bank / group sets up and maintains an internal control system that ensures, among others, compliance, and integrity of the bank’s / group’s operations. The compliance function is the function of compliance risk management and is part of the internal control system in the bank and its group. The function manages compliance risk by regularly monitoring, rating, acting on and reporting on compliance risk.

## 2. Compliance Risk

### 2.1. Definition

Compliance risk means the existing or anticipated risk of loss arising of income, capital and reputation of the Bank due to violations or non-compliance with applicable laws, requirements of the supervisory bodies (the Bank of Slovenia, the European Central Bank, the Securities Market Agency, etc.), rules and regulations (both internal and external), arrangements, prescribed practices or ethical standards as set out in the Code of Conduct of Nova KBM d.d. and the Nova KBM Group.

### 2.2. Relevant compliance areas

On the basis of generally accepted standards and good practices, this Policy outlines the requirements and guidelines for the management of the following relevant areas of Compliance Office that represent a higher level of compliance risk for the Bank (compliance risk areas):

- regulatory compliance
- prevention of conflict of interest
- anti-corruption
- fit & proper
- data protection
- consumer protection and anti-trust
- procurement and licencing compliance
- product development and monitoring
- markets in financial instruments
- FATCA, CRS and DAC6 and
- prohibited behaviour of employees.
- Information security risk, risk of external fraud and AML/CFT risk are governed and defined by other policies of the bank / group and managed by other organizational units.

### 2.3. Group-wide implementation

Group members shall appropriately implement this Policy by considering special regulations applicable to respective Group members and their size, structural organization and extent and complexity of risks arising from the Group member's business model and organization.

Compliance Policy has been implemented with the Compliance Program and the Compliance monitoring programme.

## 3. Roles and Responsibilities

A clear definition of the roles and responsibilities is key to effective implementation of the Compliance Policy on the one hand and to ensuring compliance in practice on the other.

The Bank is organised in accordance with the three lines of defence model, which enables comprehensive and effective risk management.

### **3.1. Control role of stakeholders in ensuring compliance**

All divisions, departments and other organisational units within the bank / group shall be responsible for checking the adequacy reliability and particularly the effectiveness of implementing the internal processes and procedures of the bank / group, including any changes, amendments and updates proposed by an individual organisational unit for the purpose of compliance risk management/prevention/elimination, as well as general adherence to external and internal regulations by all stakeholders in the bank / group.

### **3.2. Bank management body, senior management, key function holders and other NKBM management**

At the first line of defence, potential compliance risks are monitored, analysed and assessed by compliance risk owners, i.e. the Management Board, senior management and key function holders, and other employees responsible for lines of work relevant to the compliance risk assessment.

#### **3.2.1. Management body of the bank / group**

The Management Body shall define and authorise the persons or organisational units in charge of independent management of individual compliance or integrity areas within the Bank and the related processes.

The Management Body shall ensure that the compliance function has the appropriate authorisations and influence to carry out this function as well as sufficient human and financial resources for effective compliance risk identification. To this end, the appropriate communication channels shall be provided for, based on which all employees of the Bank at all levels may be informed of and familiarised with the requirements, which in terms of risk compliance and ensuring compliance relate to their field of work, their powers and responsibilities, especially in the case of identifying a violation of the Compliance Policy.

Furthermore, in order to provide for an independent compliance risk identification in the bank / group, the Management Body shall ensure that the Compliance Department shall perform and coordinate its tasks and activities on its own initiative, including investigations of possible violations of the Compliance Policy, without the Compliance Department employees being exposed to any attempts of undue influence or pressure exerted by the members of the management body or senior management so as to impair the independence of the Compliance Department. The Management Body shall be responsible for effective management and supervision of the compliance risk management system.

To ensure compliance with the applicable legal and implementing regulations and effectiveness of the compliance function, the Management Body shall provide for consistent and timely consideration of all submitted reports, findings and proposed measures of the Compliance Department; in addition, the Management Body shall require that senior management appropriately eliminate any identified irregularities within the agreed deadlines. Failure to comply with the recommendations of the Compliance Department and any delays

in the elimination of the identified irregularities with respect to the agreed deadlines shall be justified in writing by the recipient of the recommendations.

The Management Board shall appoint and dismiss the head of the compliance function (i.e. the Director of Compliance Office) and shall previously notify the Supervisory Board thereof.

### **3.2.2. Second, third and fourth management level and key function holders**

The second and third management levels and Key Function holders owners shall be in charge of compliance risk management within their respective unit/business line with the assistance of independent compliance function holders.

The second, third and fourth management levels shall be in charge of implementing the Compliance Policy in the context of the work areas and processes they manage and shall ensure that their subordinates implement this Policy.

Within the scope of their powers, the third and fourth management levels shall be in charge of providing the relevant internal documents for subordinates so as to ensure Bank-wide compliance at all levels.

All management levels of the Bank shall ensure that appropriate actions are taken against any inappropriate conduct by employees in terms of compliance.

Furthermore, all management levels shall be responsible for the implementation of activities required to identify potential compliance risk within their respective fields, and in charge of adoption of activities/actions required to ensure effective compliance risk management.

All management levels shall report on the above activities and identified compliance risk to the Compliance Office and, where necessary, to the Management Board of the bank / group.

### **3.3. All staff**

Bank staff shall be responsible for ensuring compliance in their line of work, taking into account their role and level of responsibility. In particular, they shall be obligated to undergo further training so as to become more qualified for compliance and integrity risk management, and the bank / group shall enable them to do so in accordance with the adopted policies on ethical and professional standards.

All staff are obligated to inform the Compliance Office of any identified compliance risk or non-compliance (incident) immediately after its identification.

#### **a) Staff training**

In cooperation with the Compliance Office the HR Development shall organise, maintain and carry out continuous training on compliance. All bank / group staff shall take part in the training. The following programmes are carried out:

programmes relating to the general compliance area and the Compliance Policy so as to primarily promote and disseminate the principle of corporate culture throughout the bank / group and the awareness to follow the law and regulations. Furthermore, they shall define the role of each individual in the compliance and integrity process of the Bank. These

programmes shall be carried out at least once a year. All bank / group staff shall take part in the training;  
programmes relating to specific compliance areas and thus adapted to certain compliance sensitive areas; only selected staff shall participate in these training programmes.

### **3.4. Compliance function**

In line with the ECB decision, Nova KBM d.d. is considered a systemically important institution. As such, in accordance with Article 146 of ZBan-2, it is obligated to set up a Compliance Office.

#### **3.4.1. Bank Compliance Office**

The Compliance Office shall identify the compliance risks to which the bank / group is or could be exposed in its operations due to a breach of applicable regulations or requirements of the Bank of Slovenia or the European Central Bank, or due to the breach of valid agreements, prescribed practices or ethical standards that could impact the revenue, capital or reputation of the bank / group.

##### **a) Responsibilities of Compliance Office**

Respective organisational units (hereinafter: OUs), persons in charge and all employees report to the Compliance Office on assessments taken, risks identified, non-compliance incidents and findings relating to compliance of their OU/business line/line of work. The Compliance Office shall then monitor (conduct the Compliance monitoring programme), assess, and oversee the implementation of the potential action plan drawn up and the implementation of compliance recommendation based on proposed evidence by said persons in charge. It shall also provide guidance and advice and set priorities depending on the level of the identified risk. If necessary, depending on the specific situation and the level of compliance risk, the Compliance Office may delegate the tasks, define the responsibilities, appoint the person in charge and specify any other compliance risk mitigation actions.

Based on the assessments and own compliance risk identification, the Compliance Office shall continuously assess the compliance risk of the bank / group.

## **4. Reporting lines**

Reporting under this Policy shall be provided by the employees of Compliance Office. Reporting shall be periodic and continuous, and, in certain cases, by request (ad-hoc reporting).



## 5. Activities of the Compliance function

The main tasks of the Compliance function shall include as follows:

- monitoring and assessment of the impact of introducing new or amending existing laws and other relevant regulations, and notifying competent employees on these amendments;
- monitoring and assessment of compliance;
- assessing, by proposal of relevant organizational units, compliance of existing and planned processes pertinent to the Bank's business that may have an impact on the Bank's business and reputation, including ensuring compliance in the area of financial instruments operations;
- compliance risk analysis for the purpose of actively participating in examining whether the introduction of new / changes to existing products comply with applicable regulations, standards and internal documents of the Bank;
- independent investigations into potential violations of compliance policies, even on the basis of bilateral communication with any employee of the Bank;
- detecting and identifying any suspicion of prohibited behaviour by employees and accepting reports thereon, analysing the suspicions and assessing the degree of suspicion, passing reported and detected suspicions for further consideration and conducting investigations into suspicions, including interviews with employees and obtaining and securing the evidence;
- proposing measures to eliminate irregularities within the course of managing prohibited behaviour;
- delivering measures to improve internal controls when detecting increased compliance risk;
- setting up regular and ad-hoc compliance risk reporting to the management body and, where appropriate, to the risk management function and the Internal Audit Department;
- advising the management body and senior management on compliance, including advising on the development of regulations and standards in this field;
- increasing staff awareness of compliance risk and compliance risk training;
- developing guidelines for staff on how to properly ensure compliance (e.g. codes, instructions, manuals);
- acting as the point of contact for any questions posed by the staff with regard to compliance risk and other matters related to the work of the Office;
- drafting the Compliance Policy and verifying other policies of the Bank and level 1 and 2 internal documents in terms of their compliance with applicable regulations;
- developing appropriate initiatives, proposals and actions aimed at ensuring compliance of the Bank's operations;
- monitoring the work of organisational units in terms of compliance the applicable regulations based on Internal Audit reports, reports of supervisory authorities and other reports and information, as well as proposing appropriate measures;
- assessing the adequacy of internal controls in terms of prevention of prohibited behaviour, making recommendations for improvements to internal controls and continuous improvement of internal controls in the field of prevention of non-compliance and prohibited behaviour of employees;
- maintaining and managing the FATCA, AEOI and DAC6 systems, as well as participating in the implementation of the FATCA, AEOI and DAC6 legal requirements;
- establishment and implementation of procedures by which the Bank prevents market abuse and market manipulation or the detection thereof;

- monitoring the internal arrangements established to protect customers' financial instruments by the person responsible for matters related to how the bank fulfils its obligations regarding the protection of clients' assets;
- implementation of a policy of assessing the suitability of members of management bodies and holders of key functions, ie. Fit & Proper Nova KBM Policy;
- adding persons (natural and legal persons) to the Stop List due to inconsistent operations;
- to conduct criminal proceedings of the bank before the courts, other state bodies and organizations or institutions;
- preparation of the Bank's responses to requests regarding all types of proceedings and tasks conducted by law enforcement agencies in criminal and pre-trial proceedings, courts and other state bodies, or institutions in the territory of the Republic of Slovenia; and
- maintaining and managing the internal control system.

In corporate compliance, the Compliance Department, i.e. the Compliance of the Management Body unit, shall ensure as follows:

- create policies relevant to the management body and ensure they are compliant with applicable regulations;
- support the president of the management body in the development and maintenance of an effective and consistent corporate governance of the Bank;
- monitor and ensure compliance of duties and responsibilities arising from Internal Audit reports/recommendations, supervisory authorities, external institutions and other measures;
- establish and maintain authorisations of the signatories of external and internal documents, special rules for various types of documents, powers and mandates, and ensure they are compliant with the law and other relevant regulations;
- monitor and assess reputation risk of the management body;
- review all proposals respective organisational units submit to the Management Board, including daily decisions of the Management Board, to determine whether they comply with the internal rules governing the Management Board decision-making process, induction of newly appointed members of the management body, the Supervisory Board and the committees of the Supervisory Board;
- implement the policy on the assessment of suitability of members of the management bodies and key function holders – the Fit & Proper Policy of Nova KBM;
- implement of the governance policy of the Bank and the Group; and
- implement of the policy on the selection of suitable candidates for the management body.
- The Compliance Office shall take a compliance risk assessment for the Bank and the Group at least once a year or on an as-needed basis, i.e. in case of significant changes to the operations of the Bank (geographic expansion, new products, new owner, etc.) or significant changes to the regulatory environment (new regulations) or in case another significant compliance risk is detected or in case of a compliance incident (here and after: incident or non-compliance). The assessment shall include reference to the planned method of managing identified risks identified, taking into account the foreseen or planned measures / compliance recommendations and activities for compliance risk management / elimination. In this respect, priorities shall be set in relation to the level of compliance risk. The Compliance Office shall regularly communicate this assessment, together with any proposed measures for the improvement of internal controls in the event of an increased compliance risk, to the Supervisory Board, the Audit Committee of the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and individual organisational units of the Bank. The Compliance Office also monitors the

implementation of the issued recommendations on the basis of proposed evidence in line with the Compliance programme and the Compliance monitoring programme.

### **5.1. Advisory role**

One of the basic tasks of the Compliance function, which is also used to manage compliance risk in the Bank, is advising the management body and senior management on compliance, including the development of regulations and standards in this field.

In practice, this is implemented as follows:

- when the Bank's management body raises doubts as to the interpretation of existing external regulations and the application of the internal regulations of the Bank, the latter can ask the Compliance office to draw up an appropriate opinion;
- for the level below the management body (i.e. B-1 and below) where the areas not within the explicit powers and responsibilities of the Compliance Office are discussed, the latter provides advisory assistance and support by replying to a clearly defined and concrete question posed by an employee regarding the application of regulations for which the Compliance office is competent and the applicable external regulations in their work process. In response to the question, the person in charge shall prepare an appropriate opinion.

The advisory role shall observe the delineation of roles and responsibilities between the Compliance Office and other functions in the Bank.

### **5.2. Communication of culture of compliance and integrity**

Building, spreading and implementing a culture of compliance and integrity within the bank / group represents a part of preventive compliance risk management. The latter is based on the principle of fairness and honesty and zero tolerance of the bank / group towards prohibited behaviour.

With the aim of achieving the goal of comprehensive employee awareness of the culture of compliance and integrity, the Compliance function shall provide for clear and effective communication channels and messages through which this goal shall be achieved. In doing so, the Office shall cooperate with the Corporate Communication function and the HR Development function in terms of training activities. This aspect should be included in regular corporate communications and training activities at least once a year by addressing all bank / group staff.

## **6. Cooperation of the Compliance function with other Internal Control functions and the Legal function**

Considering the size of the bank / group and complexity of its operations, other OUs are actively involved in the implementation of the Compliance function, in particular:

- Internal Audit function,
- Legal function,
- HR Development function,
- Strategic Risk Management function,
- Operational Risk function
- Information Security Governance function,
- Anti-Fraud function and
- Anti-Money Laundering function.

### **6.1. Internal Audit**

Internal Audit shall be responsible for comprehensive 3<sup>rd</sup> level (line of defence) compliance risk management. In practice, Internal Audit performs its duties by regularly assessing the soundness and effectiveness of the compliance risk management system.

Internal Audit shall notify Compliance Office of all Internal Audit recommendations issued with regard to detected compliance risks. Internal Audit also notify Compliance Office of Audit reviews and recommendations with regard to detected compliance risk.

Compliance shall notify Internal Audit of all Compliance recommendations issued with regard to compliance risk management and mitigation.

### **6.2. Legal**

The Legal Office is the owner of legal risk management within the bank / group. In this capacity, it shall take part in the development of reports and internal documents for the Management Board, and assess the level of legal risk.

### **6.3. HR Development**

HR Development is the compliance function holder with respect to labour law and, consequently, compliance risk management and assessment. It shall directly and independently report on compliance risks in this area to both the Management Board and the Supervisory Board. In this function, the HR Development shall be responsible not only for advising on, interpreting and applying the relevant labour law regulations, but also for the development of internal documents and reports for the Management Board, the Remuneration Committee and the Nomination Committee of the Supervisory Board. It shall especially ensure that the remuneration system in the Bank complies with the obligations applicable to the bank / group per relevant laws, rules, and other relevant regulations.

Through its activities, the HR Development shall help promote and disseminate the principle of corporate culture throughout the bank / group and, in relation to the compliance function, be primarily involved in the preparation of compliance-related training activities and programmes.

HR Development shall notify Compliance Office of all detected compliance risks or compliance incidents.

The Compliance Office shall review any proposals on changes to the organizational structure of the bank / group before they are approved by the Management Board, and shall give its opinion on the potential impact of such changes or establishment on compliance risk; if necessary, an analysis of the control activities shall be conducted.

#### **6.4. Strategic Risk Management and Operational Risk Management**

Strategic Risk Management and Operational Risk Management, as the holder of the risk management function in the Bank, shall assist the Compliance function in defining the methodology for effective compliance and reputation risk assessment. Strategic Risk Management and Operational Risk Management shall directly and independently report on the risks to both the Management Board and the Supervisory Board.

Operational Risk Management shall report to the Compliance function any identified compliance risk or incident (mainly on operational risks – loss events).

Additionally, if detecting operational risk or a loss event arising from operational risk in its line of work, the Compliance function shall notify Operational Risk Management thereof.

#### **6.5. Information Security Governance**

Information Security Governance, as the holder of the compliance function with respect to information security, shall directly and independently report on compliance risks in this area to both the Management Board and the Supervisory Board.

Information Security Governance shall be primarily responsible for any issues related to these areas, which means that it shall be responsible for advising on, interpreting and applying the relevant laws and regulations. Depending on the nature of its work, it shall participate in the development of reports and internal documents for the Management Board, and assess the level of compliance risk related to these areas.

Information Security Governance shall notify Compliance Office of all detected compliance risks or compliance incidents.

To ensure sound compliance risk management and mitigation, Information Security Governance or the designated Data Protection Officer shall be a member of working bodies responsible for the treatment of information security incidents.

#### **6.6. Anti-Fraud**

Anti-Fraud, as the holder of the compliance function with respect to prevention of external fraud, prohibited behaviour of third parties and data leakage, shall directly and independently report on compliance risks in this area to both the Management Board and the Supervisory Board.

Anti-Fraud shall be primarily responsible for any issues related to these areas, which means that it shall be responsible for advising on, interpreting and applying the relevant laws and regulations. Depending on the nature of its work, it shall participate in the development of reports and internal documents for the Management Board and assess the level of compliance risk related to these areas.

Anti-Fraud shall quarterly report to the Compliance function any identified external fraud events and detected compliance risks, so as to ensure proper response to internal fraud or other compliance risks.

## **6.7. Anti-Money Laundering**

Anti-Money Laundering (AML) shall be the holder of the compliance function with respect to anti-money laundering and counter-terrorist financing and restrictive measures in the bank / group. It shall directly and independently report to both the Management Board and the Supervisory Board.

Considering the above, AML shall primarily monitor and process any suspicious transactions and prepare further measures and procedures based thereon. It shall monitor the regulations relating to AML/CFT and restrictive measures, while also preparing the guidelines and proposals to implement appropriate measures in the bank / group. Furthermore, AML shall not only establish and maintain an appropriate AML/CFT but shall also be responsible for any issues related to these areas, which means that it shall be responsible for advising on, interpreting and applying the relevant legislation and all the relevant regulations (particularly for bank / group staff). Depending on the nature of its work, it shall participate in the development of reports and internal documents for the Management Board and assess the level of compliance risk related to these areas.

Notwithstanding any other provisions applicable in the bank / group, AML shall represent the bank / group in all matters relating to money laundering, terrorist financing and restrictive measures.

AML shall notify Compliance Office of all detected compliance risks or compliance incidents detected outside its work area.

## **7. Relevant Compliance areas managed by the Compliance Office**

Group members shall implement provisions of this Section by considering their size, organizational structure and regulatory landscape.

Tasks concerning the compliance areas specified in this Chapter are centralized in the Compliance Office.

An important part of compliance risk management is not only their identification but also proper integration or classification of these risks in the Bank.

### **7.1. Regulatory compliance**

Compliance risk in the Bank is managed through regular monitoring and assessment of both the existing and new statutory (adoption of new laws or amendment to existing) and executive regulations that may be relevant for the operations of the Bank as a financial institution. The Compliance Office staff includes designated Regulatory Compliance Officers.

The primary objective of the Bank is its commitment to operate in compliance with applicable regulations. In order to achieve this objective, it is necessary to continuously manage compliance risk by, on the one hand, regularly monitoring all the changes and amendments to applicable legislation and, on the other hand, ensuring their implementation in internal regulations and processes of the Bank.

To this end, the CO shall in particular:

Continuously monitor new or amended regulations and rules, and report thereon to the competent persons in the Bank as soon as possible.

Based on the previous point of this paragraph, cooperate in the compliance risk assessment with respect to applicable regulations and any changes/amendments, considering in particular the impact on Bank performance, its processes, products and other services.

Based on the previous two points of this paragraph, draw up an action plan, if necessary, to mitigate and eliminate the identified risk or make other recommendations aimed at implementing the necessary changes in the Bank (introduction of good practices);

approve internal documents at levels 1 and 2 prior to their approval by the competent body.

Analyse compliance risk by being proactively involved in examining whether the launch of new products complies with applicable regulations, standards and internal documents of the Bank.

### **7.2. Anti-corruption and conflict of interest management**

The Bank is committed to following the law and other regulations and rules on combating bribery in all countries in which it operates, and prohibits all improper payments, including improper payments to public employees, employees, customers, vendors and competitors.

The internal audit function periodically reviews the compliance of operations with this Policy, especially in the field of prevention of corruption.

All acts of corruption are unacceptable.

Corruption shall mean any breach of due conduct of the employees of the Bank, as well as the conduct of persons initiating such violations or persons benefiting from it, for the purpose of undue benefit promised, offered or given directly or indirectly, or for the purpose of undue benefit demanded, accepted or expected for one's own advantage or to the advantage of any other person. The acts of corruption shall include facilitation payments, unlawful acceptance



and giving of gifts, funding of political parties, illegal donations, charitable contributions and sponsorships.

### **7.2.1. Conflict of Interest Management**

In order to protect its reputation, ensure fairness and transparency of operations, prevent, both in fact and appearance, the private interests of employees influencing their impartial and objective performance of their duties and tasks, and to avoid damage to the Bank or its stakeholders, the Bank defined the roles and responsibilities and introduced an effective system for the management and prevention of conflict of interest and similar influences in accordance with the Integrity and Prevention of Corruption Act, the Companies Act and the Banking Act.

The Bank ensures appropriate delineation of responsibilities, duties and tasks so that no employee is able to perform mutually incompatible tasks which may give rise to conflict of interest.

### **7.2.2. Giving / acceptance of gifts, business meals, entertainment and sponsored travel**

Prohibited acceptance of gifts shall be understood as the facilitation or acceptance of unlawful reward, invitation, gift or any other benefit for oneself or another party or facilitation or acceptance of an offer of such a benefit that may impact the impartiality of the gift-taker and the business relationship as a whole.

Staff members are prohibited from accepting any personal discounts from business partners and service providers/vendors of the Bank if offered in relation to their work at the Bank, unless the discounts are offered to all or a greater number of Bank staff.

Bank staff are also prohibited from facilitating or accepting improper payments.

Gifts, business lunches, business dinners and hospitality play an important role in the business protocol and tradition in many countries. However, when they are given or received in an inappropriate manner they are in violation of this Policy.

Gifts, business lunches and dinners, hospitality and sponsored travel:

- shall not be offered or accepted with the purpose of obtaining an improper advantage or affecting an official action;
- must be allowed by the local legislation or the applicable regulations of a concrete agency or other competent body;
- shall have a nominal value and shall be appropriate in relation to the position of the recipient, the circumstances and opportunities in order to prevent creating the appearance of unfairness or inappropriateness and that neither the recipient nor any other person cannot reasonably misunderstand them as a bribe;
- shall be such that the value and frequency of previous gifts and hospitality do not create the impression of improper conduct to the same recipient;
- shall be fairly and accurately recorded in the books and records.

### **7.2.3. Donations and sponsorships**



Although donations to charitable organisations are usually considered in terms of corporate social responsibility, donations to organisations with which public employees or employees of the buyer or supplier are associated raise doubts connected to corruption, especially if it involves an expectation of a favour for a favour or benefit for Nova KBM d.d.

With respect to donations and charitable contributions, the following shall be assessed before making a commitment or contribution:

- the purpose of payment;
- whether the payment is being made at the request of a public employee or employee of the customer or supplier;
- whether the public employee or employee of the customer or supplier is associated with the charity organisation and whether the public employee or employee of the customer or supplier takes decisions relating to the business of the NKBM Group;
- whether the acquisition of business or other benefits depends, directly or indirectly, on the payment.

#### **7.2.4. Prohibition of funding political parties and election campaigns**

The prohibition of funding political parties and election campaigns shall mean that it is not allowed to provide any benefits to political parties or politically exposed persons.

Illegal donations, charitable contributions and sponsorships shall mean that the benefits in the form of expenses, donations, charitable contributions and sponsorships may not be provided by circumventing the rules regarding the acceptance and giving of gifts and bribes and in relation to the benefits provided to political parties and politically exposed persons and benefits provided to political parties, election candidates and political campaigns.

#### **7.2.5. Prohibition of indirect payments**

Indirect payments through a third person are prohibited. Because of the risk involved in cooperating with such intermediaries, it is very important that the employees who cooperate with external service providers/vendors follow the procedure laid down in internal rules.

#### **7.2.6. Prohibited and facilitation payments**

None of the employees and of persons acting on behalf of the Bank shall execute, offer or promise a payment (regardless of whether the payment is actually executed) or directly or indirectly give anything of value to a public employee or an individual in the private sector so as to help the Bank obtain or retain an improper business advantage regardless of whether it benefits from it or not.

Prohibited payments include in particular:

- payments to obtain an improper advantage, including the decision to select the Bank as the provider of products or services or to ensure more favourable conditions for the Bank, including the provision of confidential or protected information and data on competitors, which could provide an improper advantage to the Bank;

- payments the purpose of which is to influence the action or decision of a public employee in the performance of their official duties;
- payments the purpose of which is to influence a public employee to use their influence in order to obtain personal benefits;
- payments the purpose of which is to induce a public employee to act or refrain from acting;
- payments the purpose of which is to induce a public employee to use their influence in the government or a governmental agency in order to influence the action or decision of the government or its agency.

The only exceptions from the prohibition of making facilitation payments shall be:

- when it concerns urgent medical treatment or an emergency security situation, which requires government agencies to ensure the safety of Nova KBM d.d. employees (e.g. medical evacuation, police protection or protection against fire); or
- where there is a reasonable belief that an employee of Nova KBM d.d. is in imminent danger of a serious injury and there is no other reasonable possibility to provide assistance.

If an employee carries out a facilitation payment in accordance with the above exceptions relating to security, they shall immediately notify thereof the Director of the Compliance Office and specify the circumstances, the amount, the recipient and other relevant information. The security exceptions for making facilitation payments shall be used only rarely.

When faced with an application or request for an improper payment or breach of the provisions of this Policy, this should be reported as a suspicion of prohibited behaviour.

### **7.2.7. Mergers and acquisitions/joint ventures/acquisitions of minority interests**

Acquisitions, joint ventures, consortia and disposals of minority interests may pose a significant risk of corruption and bribery. When Nova KBM undertakes to perform such activities, it is important to ensure the following in consultation with a legal advisor:

- a thorough due diligence of compliance of operations and the reputation of potential acquisition or investment objective, joint venture/partners in the joint venture or consortium or partner/partners in the consortium based on risks;
- the application of the Code of Conduct, the Compliance Policy, the Anti-Corruption Policy and/or subordinate documents of Bank in the acquired entity as well as, to the extent possible, in the joint venture, the consortium or investment objective;
- training in combating corruption and ensuring that such training is held;
- planning and execution of an audit of the acquired entity, which is focused on corruption, within the shortest possible time and making every effort to carry out such a review in the event of joint ventures, consortia and purchase of a minority interest.

### **7.2.8. Maintenance of books of account of business transactions**

The Bank shall establish and keep the books, records and accounts, which, in adequate detail, accurately and fairly reflect the nature of business transactions and assets of the Bank. Nothing shall be kept off-the-books in order to facilitate or conceal an improper payment or for any other reason. All expenses, gifts, hospitality and any other payments shall be precisely and accurately reported and recorded. All accounting records, expense reports, invoices, gift certificates and other business records shall be accurately and fully completed and properly

kept. They shall be duly reported upon and recorded. Assets, accounts or payments undisclosed or unrecorded for whatever reason shall not be made or kept. It shall be prohibited to avoid or attempt to avoid internal accounting controls of the Bank or to circumvent them.

### **7.2.9. Recruitment and traineeship**

Public employees or employees of the Bank's business partners may sometimes ask the Bank to ensure traineeship or employment for specific individuals, or these public employees or employees themselves may request to be recruited by the Bank. Depending on the circumstances, the offer of employment or traineeship may constitute a bribe, especially if the public employee or employee of a business partner may have an influence on the business interests of the Bank. Each Bank employee shall consult the Compliance Office of Nova KBM d.d. when a public employee or employee of a business partner who may have an influence on the business interests of the Bank (i) asks to be considered as a candidate for employment, or (ii) asks that a person related to them be considered as a candidate for employment or traineeship.

### **7.3. Reputation management**

Reputation risk means the risk of loss arising from the negative image of the bank held by its customers, business partners, owners and investors or supervisors.

Effective risk event management acts as a means of strengthening bank's reputation.

The Compliance Office monitors monthly announcements in the media and monthly clippings and analyses negative announcements, monitors customer advertising and, if necessary, issues appropriate measures that are necessary to prevent or minimize reputation risk (carrying out interviews with involved parties, involving Legal Office for the purpose of filing legal remedies, putting legal entities and natural persons, which are damaging the bank's reputation on the stop list, etc.).

The Compliance Office keeps records of all negative announcements in the adopted measures and reports to the managing body.

### **7.4. Assessment of suitability of members of management bodies and key function holders (Fit & Proper)**

The Fit & Proper Policy is aligned with the Bank's strategy, values and long-term vision, and includes criteria for the assessment of individual and collective suitability, sets out documents underlying the assessment, procedures to ensure suitability and, where applicable, the reassessment process. The Policy also outlines procedures and action in cases where the candidate is assessed as not suitable for a particular position or function.

### **7.5. Data protection**

In order to protect its reputation and competitive position, and to prevent regulatory sanctions from being imposed and potential damage to the Bank or its stakeholders, the Bank classifies information and data and engages in appropriate procedures for the treatment thereof, in particular with regard to data protection and publication of data of a public nature.

The Compliance Office is the owner of data protection management. The Compliance Office designated a Data Protection Officer for this purpose.

### **7.5.1. Business secret**

Pursuant to the Banking Act and the Trade Secrets Act, the Bank defined the term business secret and its classification, set the responsibilities and established an effective system for the safeguarding of business secrets.

### **7.5.2. Personal data**

In order to protect the privacy and dignity of individuals in accordance with the General Data Protection Regulation (GDPR), the Banking Act, and the Personal Data Protection Act, the Bank shall define personal data, sensitive personal data and the related filing systems and their classification, set relevant responsibilities, and establish an effective personal data protection system.

With the purpose of effectively managing the risks relating to personal data protection, the Bank designated a Data Protection Officer within the Compliance function.

### **7.5.3. Classified information**

The Bank treats and manages classified information in accordance with the Classified Information Act.

### **7.5.4. Public information**

The Bank may publish any information it classifies or defines as public information. This shall include information intended for both the internal and external users without any restrictions.

The Bank shall make public all information that falls within the scope of public information pursuant to the Public Information Access Act.

### **7.5.5. Data protection**

The Bank shall ensure the protection of data or records, which shall include cryptographic controls in line with the requirements provided by applicable legislation, relevant provisions of agreements entered into, and in accordance with the business requirements of the Bank regarding confidentiality, availability and integrity of information and material records.

## **7.6. Customer protection and anti-trust**

### **7.6.1. Customer protection**

The Bank shall respect and protect the rights of its customers.

In order to ensure regular and quality provision of services to its customers, the Bank shall continuously develop and increase the quality of its services. For this purpose, the Bank shall establish a customer complaint resolving procedure, the aim of which shall be to effectively resolve any customer complaint to the satisfaction of both the customer and the Bank by also including its employees.

The Bank shall respond to the customer's complaint within the statutory time limit. Complaints received, and their handling, shall be documented; resolved complaints shall be applied as lessons learned to optimise the Bank's organisation, business processes and improve internal controls.

### **7.6.2. Anti-trust**

By this Policy, the Bank defines in detail the prohibition of the employees' behaviour that may constitute a restriction of competition.

Any agreements (unless they are of minor importance) between banks or other financial institutions or undertakings, decisions by associations in which the Bank participates (e.g. the Bank Association of Slovenia) and concerted practices of banks or other financial institutions or undertakings (hereinafter: agreements), which have as their object or effect the prevention, restriction or distortion of competition, shall be prohibited and shall be null and void.

The prohibition shall apply in particular to:

- direct or indirect fixing of purchase or sales prices or other trading conditions;
- limiting or controlling production, sales, technical progress or investments;
- applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, no connection to the subject of their contracts;
- sharing markets or sources of supply.

The prohibition referred to in the previous paragraph shall not apply if these agreements contribute to improving the production or distribution of goods or to promoting technical and economic progress, while allowing consumers a fair share of the resulting benefit. These agreements shall not:

- impose on the undertakings involved any restrictions that are not indispensable to the attainment of these objectives, and
- confer upon these undertakings the option of eliminating the competition in respect of a substantial part of the products or services that are the subject of the agreement.

Abuse of a dominant position in the market by one or more banks or undertakings shall be prohibited. An undertaking or a bank or several undertakings or banks shall be deemed to have a dominant position when they can, to a significant degree, act independently of competitors, customers or consumers (in determining the latter, the following criteria shall be taken into consideration in particular: market share, funding options, legal or actual entry barriers, access to suppliers or the market and existing or potential competition).

The abuse of a dominant position shall constitute in particular:

- directly or indirectly imposing unfair purchase or sales prices or other unfair trading conditions;

- limiting production, markets or technical development to the prejudice of consumers;
- applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection to the subject of their contracts.

An undertaking or a bank shall be deemed to have a dominant position if its share on the market of the Republic of Slovenia exceeds the 40 percent threshold. Two or more banks or undertakings shall be deemed to have a dominant position if their share on the market of the Republic of Slovenia exceeds 60 percent.

Concentrations that would significantly impede effective competition on the territory of the Republic of Slovenia or on a substantial part of it, especially as a result of the creation or strengthening of a dominant position, shall be prohibited.

The concentration assessment criteria shall include in particular the following: market position of the undertakings or banks involved in the concentration, their financial options, market structure, alternatives available to suppliers and users, their access to sources of supply or markets, any legal or other barriers to entry, supply and demand trends for the relevant markets, the interests of intermediate and ultimate consumers and the development of technical and economic progress provided that it is to consumers' advantage and does not form an obstacle to competition.

A concentration shall be deemed to arise where a change of control on a lasting basis results from:

- the merger of two or more previously independent undertakings or banks or parts of undertakings or banks, or
- the acquisition, by one or more natural persons already controlling at least one undertaking or bank, or by one or more undertakings or banks, whether by purchase of securities or assets, by contract or by any other means, of direct or indirect control of the whole or parts of one or more other undertakings or banks, or
- the creation of a joint venture or bank by two or more independent undertakings or banks, performing on a lasting basis all the functions of an autonomous economic entity.

Control of a whole undertaking or bank or a part of it within the meaning of the preceding paragraph shall be constituted by rights, contracts or any other means that, either separately or in combination and having regard to the considerations of facts or regulations involved, confer the possibility of exercising decisive influence on such an undertaking or bank or part of undertaking or bank, in particular:

- ownership or the right to use all or part of the assets of an undertaking or bank;
- rights or contracts that confer a decisive influence on the composition, voting or orders of the bodies of an undertaking or bank.

Control is acquired by persons or undertakings or banks that:

- are holders of rights or entitled to rights under the contracts concerned, or
- while not being holders of such rights or entitled to rights under such contracts, have the power to exercise the rights deriving from contracts.

A concentration shall not be deemed to arise when banks or other financial institutions, the normal activities of which include transactions and dealing in securities for their own account

or for the account of others, hold on a temporary basis business assets that they have acquired in an undertaking with a view to reselling them, provided that they do not exercise voting rights in respect of those business assets with a view to determining the competitive behaviour of that undertaking or provided that they exercise such voting rights only with a view to preparing the disposal of these business assets and that any such disposal takes place within one year of the date of acquisition of these business assets. The period of one year may be extended by order of the Agency by request of the undertaking where the undertaking can show that the disposal was not reasonably possible within the prescribed period.

## **7.7. Procurement and licence compliance**

### **7.7.1. Procurement compliance**

In certain cases, the Compliance Office will carry out vendor due diligence to reduce the risk of corruption in vendor relationships. If the Compliance Office does not sign off on a vendor relationship, the Bank shall not engage with that vendor.

### **7.7.2. Licence Compliance**

The Bank shall protect its and its stakeholders' intellectual property in accordance with legal requirements, regulations and agreements relating to intellectual property rights and the use of proprietary software products.

Intellectual property comprises copyrights, design rights, trademarks, patents and source code licences.

In order to protect its intellectual property, the Bank shall introduce appropriate procedures and responsibilities for ensuring compliance with legal and contractual requirements and the requirements arising from other regulations which require that intellectual property protection be observed.

## **7.8. Compliance of product development and monitoring**

Prior to the launch of a new or change of a pre-existing banking product, technology, service, system, model, entry into new markets, etc., Compliance Office actively participate in the verification whether such a launch or change complies with applicable regulations, standards and internal regulations of the Bank.

## **7.9. Financial instruments market and custody**

The Compliance Office holds an important role in ensuring compliance in trading in financial instruments and custody.



For purposes of protecting the Bank's reputation and ensuring compliance with regulations governing financial instruments and custody, the Compliance Office monitors and assesses established processes and procedures the Bank carries out to meet statutory requirements.

Per the MiFID II EU regulatory framework, the Bank is obligated to set up and maintain a permanent compliance function that operates independently and entrusted, among others, with the following tasks and responsibilities:

- Permanently monitor and regularly assess the adequacy and effectiveness of measures, policies, procedures and actions the Bank adopts to eliminate any weakness in the performance of its obligations.
- Advise and assist persons responsible for investment services and activities on relevant legislation.
- Report to the Management Board at least annually on the implementation and effectiveness of the overall control landscape, the risks detected and on the reporting of complaint resolutions, as well as on actions taken or to be taken. As part of the annual reporting, the Compliance Office also informs the Management Board about the product management process in the company.
- Monitor the performance of the complaint resolution process and consider complaints as a relevant source of information. In order to protect the clients' financial instruments, a responsible person is appointed within the Compliance Office for matters related to how the bank fulfils its obligations regarding the protection of clients' assets. As part of the function, the person reviews the existing processes related to the subject area, participates in the educational process of persons providing clients with information about financial instruments and services, and participates in the implementation of new requirements as needed.

Market abuse prevention actions also play a key role in ensuring compliance in the financial instruments trading line. The Bank has in place a system for the prevention of abuses of this type, which is defined by precise rules in statute and reporting obligations of respective employees.

Persons involved in trading in financial instruments shall be understood as persons who may detect or take note of any trading characteristic based on inside information or market manipulation. Whenever this type of trading is detected at the Bank, the Compliance Office shall examine an additional review and if needed report to the Securities Market Agency.

## **7.10. Tax compliance (FATCA, CRS and DAC6)**

In order to protect the reputation of the Bank and prevent tax evasion, the Bank adheres to and implements the following:

- Act Ratifying the Agreement between the Government of the Republic of Slovenia and the Government of the United States of America to Improve International Tax Compliance and to Implement FATCA,
- Standard for Automatic Exchange of Financial Account Information developed by the Organisation for Economic Cooperation and Development (OECD), Council Directive 2014/107/EU, and
- Council Directive (EU) 2018/822 and DAC6 and other tax laws (particularly the Tax Procedure Act).

For this purpose, the Bank, as a reporting financial institution, is obligated to set up a tax compliance assurance process, which entails in particular:

- identifying of clients and beneficial holders of banking services (individuals and legal entities and their ultimate beneficial owners),



- collecting mandatory data and documentation that the Bank can determine and verify the clients' citizenship and/or tax residence,
- correctly recording collected data into the Bank's information system,
- properly managing collected data and monitoring any changes,
- identifying potentially aggressive cross-border tax planning arrangements using t.i. recognizable features that potentially indicate aggressive tax planning.

The Bank is obliged to annually communicate the following information to the Financial Administration of the Republic of Slovenia (FURS):

- financial accounts of tax non-residents,
- financial accounts of clients who declared as U.S. citizens or tax residents and
- potentially aggressive cross-border tax planning arrangements.

## **7.11. Management of prohibited behaviour**

With the aim of protecting the Bank's core values, integrity and reputation and preventing damage to the Bank or its stakeholders, the Bank shall define integrity and core values and set up roles, responsibilities and an effective system for ensuring core values and integrity on all business levels.

With the same aim as referred to above, the Bank shall define prohibited behaviour and introduce an effective system for the detection, prevention, management and, in particular, mitigation of prohibited behaviour. The Bank has a zero-tolerance policy towards prohibited behaviour.

The Bank set up a neutral channel that Bank employees can use to anonymously report any prohibited behaviour (whistleblowing) without being exposed to risk of retaliation or any other risk. By setting up a whistleblowing channel, the Bank encourages and promotes the detection, prevention and elimination of prohibited behaviour, and introduces a trustworthy and safe work environment that allows for unimpeded cooperation of all employees.

All Bank staff have the duty and responsibility to prevent prohibited behaviour.

Within the process of managing prohibited behaviour of employees management and prohibited behaviour-related the Compliance office is responsible for strategic planning and management of the system for the prevention of prohibited behaviour of employees, identifying and detecting suspicions of prohibited behaviour of employees, receiving reports on suspicions of prohibited behaviour of employees in accordance with provisions governing the receipt of reports, dealing with suspicions of prohibited behaviour of employees in accordance with the provisions governing the treatment of prohibited behaviour of employees, proposing measures to correct the irregularities within the framework of treatment of prohibited behaviour of employees, assessing risks of prohibited behaviour of employees and the soundness of internal controls in terms of managing prohibited behaviour of employees and making recommendations for improving internal controls, monitoring if implementation of compliance recommendation based on proposed proofs, reporting to the Management Board and other functions of the Bank, as specified in detail by relevant rulebooks, and training / communication on prohibited behaviour of employees. The Compliance office is also responsible for reporting and lodging of criminal reports and charges with competent state authorities, cooperating with competent law enforcement authorities, reporting to the Management Board and other bodies of the Bank.

The Fraud Management unit is responsible for strategic planning and fraud management, strategic planning and management of the system for the prevention of prohibited behaviour

of third parties, detection and identification of prohibited behaviour of third parties, management of the automated prohibited behaviour warning system, receiving reports on suspicions of prohibited behaviour of third parties in accordance with the provisions of applicable internal acts, treatment of suspicions of prohibited behaviour of third parties in accordance with applicable internal acts, proposing measures to eliminate the irregularities within the framework of the treatment of prohibited behaviour of third parties, assessing risks of prohibited behaviour of third parties and the soundness of internal controls in terms of managing prohibited behaviour of third parties and making recommendations for improving the internal controls, reporting to the Management Board and other bodies of the Bank, training / communication on prohibited behaviour of third parties.

### **7.11.1. Prohibited behaviour management programme**

The Bank places great emphasis on the management of prohibited behaviour for purposes of optimizing risks associated with prohibited behaviour, i.e. for purposes of achieving optimal balance between losses incurred due to prohibited behaviour and costs associated with the management and prevention of prohibited behaviour.

The overarching objective is to control losses incurred due to prohibited behaviour by focusing on the prevention of said practices. With respect to prevention and management of prohibited behaviour, the Bank ensures adequacy and compliance of Bank operations by preventing violations of provisions laid down in this Policy. By acting in this manner, the Bank not only protects its reputation and financial interests, but also its employees, clients, shareholders, suppliers and vendors. On a broader scale, actions of the Bank also protect the reputation of financial centres the Bank operates in, as well as the interests of the civil society.

A permanent task with respect to the management and prevention of prohibited behaviour are preventive activities and warnings issued regarding negative consequences that may result from prohibited behaviour. Preventive activities include the system for anonymous reporting of suspicion of prohibited behaviour (whistle-blower system), system for automated detection of prohibited behaviour, and continuous raising of awareness of employees on the importance to adhere to applicable rules and regulations. Another task with respect to the management and prevention of prohibited behaviour is regular monitoring of the compliance of conduct of employees taken as part of predetermined and implemented controls, audits and standard processes, as well as the detection of violations and issuance of recommendations on remedial actions and monitoring of implementation of issued recommendation. The aforementioned measures are material to the protection of the Bank's goodwill and reputation.

As a result of preventive activities, the Bank integrates relevant controls and control points in all business processes sensitive to prohibited behaviour, so as to ensure quick detection and prevention of (attempted) prohibited behaviour.

The management of risks associated with suspected prohibited behaviour in the Bank is a material element of the Bank's strategy on the management and prevention of prohibited behaviour, and entails a detailed investigation of relevant circumstances.

Immediately after determining that prohibited behaviour occurred, the Bank shall undertake all measures necessary to terminate contractual or business relationships with natural persons and / or legal entities that either engaged in or attempted to engage in prohibited behaviour.

The Programme of management and prevention of prohibited behaviour, which is a part of Compliance Programme and Compliance monitoring programme, as a whole entails in particular the following activities:

- Follow-up on current state of affairs (including prohibited behaviour identified, efficiency and success rate of prohibited behaviour prevention processes, current risk mitigation measures, investigations and cooperation between stakeholders, and results of the last risk assessment).
- Define key objectives – changes to be implemented during the period concerned.
- Produce action plan for implementation.

### **7.11.2. Prohibited behaviour triangle**

The prohibited behaviour triangle is a model applied to interpret the factors of prohibited behaviour. The model can be applied to identify the risk of prohibited behaviour occurring, and to define the manner of prevention and deterrence of prohibited behaviour in the Bank.

The model consists of three components that commonly appear simultaneously and lead to prohibited behaviour:

- Persons need to be encouraged or coerced into engaging in prohibited behaviour, e.g. coercion to realize financial objective, victim of intimidation, concern about job, attempt to hide an error, personal financial distress or addiction, desire for power or desire to beat the system;
- Opportunity (lack of controls, inefficient controls, opportunity to evade controls, poor supervision or lack of supervision, opportunity for conspiracy);
- persons do not see themselves as perpetrators and therefore need to rationalize or justify their actions (conviction that this is common practice, job or wage dissatisfaction – “I’ll take what they owe me”, denial with regard to consequences or conviction that they will not be caught).

The management and prevention of prohibited behaviour in the Bank should affect all three components referred to above. The overarching objective is to reduce the volume of prohibited behaviour and reduce the volume of opportunities to engage in prohibited behaviour (risk).

### **7.11.3. Law enforcement authorities and courts**

The Bank shall cooperate with law enforcement authorities in criminal complaints, investigations and prosecutions and shall provide information in line with the applicable legislation to the law enforcement authorities and courts at their request. Furthermore, the Bank shall perform the main supervision of data transmission to law enforcement authorities and courts and shall file reports and make statements.