
CORPORATE GOVERNANCE STATEMENT

To achieve a high level of transparency in governance, Abanka d.d. includes a corporate governance statement in its business report in accordance with the fifth paragraph of Article 70 of the Companies Act.

Abanka d.d. implements its internal governance arrangements, including corporate governance, in accordance with the applicable legislation of the Republic of Slovenia, particularly the provisions of the Banking Act (ZBan-2) on internal governance arrangements in Section 3.4 (Governance System of a Bank) and Section 6 (Internal Governance Arrangements and Internal Capital Adequacy), the latter in the part relating to the requirements which apply to a bank or to the members of the management body, in addition to taking into account the regulations referred to in the second paragraph of Article 9 of the Banking Act (ZBan-2). Apart from that, the Bank adheres to the Decision on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks and the relevant EBA guidelines on the assessment of the suitability of members of the management body and key function holders as well as the guidelines on remuneration policies and practices. Furthermore, the Bank seeks to follow non-mandatory recommendations from the letter of the Bank of Slovenia (ref. 38.20-0288/15-TR of 23 October 2015) to the maximum possible extent.

Abanka d.d. is a state-owned company and not a public company within the meaning of the Financial Instruments Market Act. In 2016, the Bank complied with the legal requirements on the governance of a bank, including the reference codes and recommendations set out in the Statement of Compliance with the Corporate Governance Code.

Statement of Compliance with the Corporate Governance Codes

The Management and Supervisory Boards declare that in its work and operations in 2016 Abanka d.d. observed the corporate governance recommendations as set out in:

- **Corporate Governance Code** adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 8 December 2009. The Code is available on the website of the Ljubljana Stock Exchange at <http://www.ljse.si> in Slovene and English;
- **Corporate Governance Code for Companies with Capital Assets of the State** adopted by Slovenski državni holding d.d. on 19 December 2014 and revised on 2 March 2016 and the **Recommendations and Expectations** of the Slovenian Sovereign Holding (Slovenski državni holding d.d.) adopted in February 2016. Both codes are published on the website www.sdh.si.

Individual deviations from the provisions of the codes and recommendations, including a statement of reasons and presentation of appropriate alternative practices, are disclosed below. The reasons for a different practice lie primarily in specific characteristics related to the ownership structure and industry or activities of the company.

a) Corporate Governance Code

Code provision 4.2: Abanka is of the view that providing information to the public via its sole shareholder – the Republic of Slovenia about their investment policy is primarily at the shareholder's discretion, in line with the regulations governing capital assets of the State. No encouragement by Abanka can specifically influence its shareholder's decision to inform the public.

Code provision 20.4: Considering the fact that the Bank was a public company only until February 2016 and is 100% owned by one shareholder, it ensured transparency of its operations to the investor in such a way that it timely and appropriately informed the investor about accounting, financial and non-financial information, enabling it to assess the situation and the impact of a particular business event on the price of the security.

b) Corporate Governance Code for Companies with Capital Assets of the State

Code provision 6.1: The Supervisory Board performs its function of supervision of the Bank's operations and its management in compliance with the law and the Articles of Association. In 2016, the Bank began to draw up the documents relevant for the preparation of a timely and effective succession plan for the members of the management bodies. In January 2017, the Supervisory Board adopted the abovementioned documents.

Code provision 10.2.1: Corporate integrity system

The Bank's guiding principle is lawful, professional, ethical, safe and diligent business, which it implements by complying with the applicable regulations, standards, codes, best practices and other rules of the financial and banking sector. In order to ensure a stable governance arrangement, the management body adopted the Code of Business Ethics. The Code not only sets the standard of Abanka's corporate culture based on its corporate values but also defines the conduct of the members of the management body and other employees in business or personal relations with the customers, co-workers, shareholders, business partners and the natural and social environment (the stakeholders).

The corporate integrity system consists of the rules of conduct, arising from the Code and defining the management of various types of risks such as the risk of unlawful operations, conduct contrary to the interests at all levels of decision-making and operation, the different types of fraud, employee harassment and mobbing, money laundering and terrorist financing, abuse of all kinds of confidential information, non-transparent and inappropriate selection of outsourcers, improper handling of consumers, market abuse, inadequate information about the performance and other.

The compliance function is integrated into the corporate integrity system so as to develop and implement the compliance programme, including the provision of advisory services and training and the identification, monitoring and assessment of risks in this area. On the basis of the self-assessment, the general annual assessment on the state of corporate integrity was made.

All employees are familiar with the Code of Business Ethics; it is published on the intranet portal and on the website of the Bank. Employees can report any detected violations to their superiors or using the internal electronic reporting system (to report infringement, loss events or incidents). The Bank ensures any employee submitting such a report that no retaliatory measures will be taken against them as a result.

c) Recommendations and Expectations of the Slovenian Sovereign Holding

Recommendation No. 5: Attainment of quality and excellence in the operations of companies/groups

The Bank performs a range of activities to determine, assess, manage and monitor the quality of its operations in various segments. The Code of Ethics constitutes the basis for improving the corporate culture of the Bank, thereby achieving business excellence and quality. The activities aimed at improving the quality of operations include verification of customer satisfaction (analyses on the basis of received complaints, loss events and other incidents, checking the service level among organisational units) and care for employee satisfaction (measurement of the organisational climate, management staff assessment, a Family-Friendly Enterprise certificate, concern for employee safety and health, monitoring of staff turnover, monitoring of reported infringements and irregularities, promotion and rewarding of promoters of the Bank's values and innovative ideas), professional training and acquisition of leadership skills. By ensuring adequate staffing in IT area, the quality and security of information systems is properly managed. Moreover, qualified internal control functions contribute to higher quality of the Bank's operations through their activities.

The governance policy and practices of Abanka are publicly accessible on its website at <http://www.abanka.si/>.

Main characteristics of the internal control and risk management systems in financial reporting

The Bank manages all types of material risks in accordance with the adopted Risk Management Strategy and in line with the risk management policies by risk type. The Bank's internal control system encompasses regular internal controls, including control policies and procedures implemented by the front office, middle office and back office, and independent internal control functions (risk management, compliance, internal audit).

The main objective of internal controls in the management of risks arising from financial reporting is to ensure reliability or credibility, accuracy, integrity, completeness and timeliness of accounting data, appropriate separation of powers and duties in accounting procedures, professional and efficient performance of tasks, operations in accordance with the applicable regulations and internal rules and fair disclosure of accounting data in internal and external reports.

Monitoring the effectiveness of risk hedging methods arising from accounting reporting and risk reduction is a process based on an internal control system consisting of internal controls (particularly the work procedures, granting and exercise of powers and responsibilities, and reporting). The activities of the Internal Audit Department and compliance activities are also part of the system.

Information required under items 3, 4, 6, 8 and 9 of paragraph 6 of Article 70 of the Companies Act

• The structure of the company's share capital, including all securities, as defined by the act governing takeovers

As at the reporting date, the share capital of Abanka amounted to EUR 151,000,000.00 and was divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia. Abanka has only one class of shares without any restrictions on their transferability. Each ordinary share carries one vote at the General Meeting of Shareholders unless stipulated otherwise by the Articles of Association or the law (no voting right).

- **Significant direct or indirect ownership of securities in terms of achieving a qualifying holding as defined by the act governing takeovers**

As at the reporting date, the Republic of Slovenia was the 100% owner of all the Bank's shares.

- **Special controlling rights**

None of the Bank's shareholders have special controlling rights.

- **Voting right restrictions**

According to the Articles of Association, voting rights are not restricted to a certain holding or to a minimum number of shares. Detailed information on the exercise of voting rights is contained in Section *Functioning of the General Meeting of Shareholders, its key competencies, description of shareholders' voting rights and the manner in which they are exercised*, which is part of this statement.

The Bank is unaware of any agreements according to which the financial rights attached to securities are through the involvement of the Bank separated from the rights attached to the holding of such securities.

- **Rules on the appointment or replacement of members of the management or supervisory bodies and amendments to the Articles of Association**

The rules on the appointment or replacement of members of the management or supervisory bodies are presented in the section "Composition and functioning of management or supervisory bodies and their committees", which is part of this statement.

The rules regarding amendments to the Articles of Association are disclosed in the section "Functioning of the General Meeting of Shareholders, its key competencies, description of shareholders' voting rights and the manner in which they are exercised", which is part of this statement.

- **Authorisations of the management, especially share purchase and share issuing options**

The Management Board of the Bank is not authorised to issue or purchase shares or issue authorised capital.

Functioning of the General Meeting of Shareholders, its key competencies, description of shareholders' voting rights and the manner in which they are exercised

The General Meeting of Shareholders consists of the Bank's shareholders. The General Meeting of Shareholders decides on the following matters: distribution of the accumulated profit on the proposal of the Management and Supervisory Boards; approval of the Annual Report should the Supervisory Board fail to approve the Annual Report or should the Management and Supervisory Boards leave it to the General Meeting of Shareholders to decide on the approval of the Annual Report; the Annual Internal Audit Report, including the opinion of the Supervisory Board; adoption of and amendments to the Articles of Association; measures to increase or decrease the share capital, excluding those which, in line with the Articles of Association, fall within the competence of the Management Board; the winding-up of the Bank and status-related changes; appointment and dismissal of Supervisory Board members; a vote of no confidence in the Management Board; granting discharge to members of the Management and Supervisory Boards; appointment of the auditor; the Rules of Procedure of the General Meeting of Shareholders and other matters determined by the Articles of Association and by the law.

The General Meeting of Shareholders is convened at least once a year by the Management Board. It can also be convened by the Supervisory Board. In addition, shareholders holding a total of one-twentieth of the share capital may require that a General Meeting of Shareholders be convened.

The Management Board convenes the General Meeting of Shareholders at least thirty days prior to the General Meeting of Shareholders by publishing the notice convening the General Meeting, its agenda and draft resolutions in the manner provided by the law and the Articles of Association. The material necessary for making decisions at the General Meeting, including draft resolutions, must be available to the shareholders at the Bank's premises from the publication of the notice convening the General Meeting.

In 2016, the Articles of Association were amended by adding the provision that if all shareholders of the Bank are present or represented at the General Meeting of Shareholders, the General Meeting of the Shareholders may take decisions without prejudice to the provisions of the law or the Articles of Association concerning the content, date and publication of the notice convening the General Meeting, the provisions relating to the deadlines and publication of amendments to the agenda of the General Meeting and the provisions on the majority required for the Management Board of the Bank to take a decision on the convocation of the General Meeting of Shareholders.

Only the shareholders holding ordinary shares who were entered in the Share Register no later than by the end of the fourth day before the date of the General Meeting of Shareholders and who announced their attendance to the Management Board no later than by the end of the fourth day prior to the date of the General Meeting are entitled to participate in and vote at the General Meeting of Shareholders. Shareholders may exercise their rights at the General Meeting of Shareholders in person or through a proxy.

Each ordinary share carries one vote at the General Meeting of Shareholders unless stipulated otherwise by the Articles of Association or the law (no voting right). The Bank has not issued any shares with restricted voting rights. The General Meeting of Shareholders adopts decisions by the majority of votes cast, unless otherwise stipulated by the Articles of Association or by the law. A three-quarters majority of the represented share capital is required for the General Meeting of Shareholders to adopt decisions on increasing or decreasing the capital, amendments to the Articles of Association, the denial of pre-emption rights to purchase shares in increasing the share capital, the winding-up of the Bank, status-related changes of the Bank, the dismissal of a Supervisory Board member and a vote of no confidence in the Management Board.

At the 33rd regular General Meeting of Shareholders held on 13 May 2016, the shareholder took note of the Annual Report of Abanka for 2015 and the remuneration of the Management and Supervisory Board members for 2015. Moreover, the shareholder was informed that the accumulated profit for 2015 totalled EUR 22,099,974.59, consisting of the remaining net profit for 2015 of EUR 19,248,861.18 and profit brought forward from previous business years in the amount of EUR 2,851,113.41. The General Meeting of Shareholders concluded that the accumulated profit in the amount EUR 22,099,974.59 will remain undistributed until further notice as retained earnings. The General Meeting granted a discharge to the Management and Supervisory Board members and adopted the Annual Internal Audit Report of Abanka d.d. for 2015, including the opinion of the Supervisory Board. The General Meeting of Shareholders took note of the resignation of Janko Gedrih as of 9 February 2016, and consequently the termination of his term of office as a member and Chairman of the Supervisory Board. The General Meeting further took note that on 30 May 2016 the term of office of Andrej Slapar as a member of the Supervisory Board would expire. The General Meeting appointed Rok Pivk a member of the Supervisory Board of Abanka d.d. for a four-year term, beginning on 13 May 2016, and Vid Leskovec a member of the Supervisory Board of Abanka d.d. for a four-year term, beginning on 31 May 2016. Moreover, the General Meeting of Shareholders adopted the following amendments to the Articles of Association of Abanka d.d.: (i) Article 25 was amended with the provisions on the admissibility of decisions made by the General Meeting of Shareholders without prejudice to the provisions of the law and the Articles of Association regarding the convocation of the General Meeting if all shareholders are present or represented at the General Meeting of Shareholders; (ii) Article 33 was amended with the provisions on the notice period of a member of the Supervisory Board who resigns from the function and on the resignation of a member of the Supervisory Board without a notice period in the case of objectively justified reasons; (iii) the sixth indent of Article 35 was amended to stipulate that the Supervisory Board shall give the Management Board its approval to defining the annual work plan of the Internal Audit Department; (iv) the provision in Article 44.a was amended to read that a member of the Management Board shall immediately inform the Supervisory Board of the circumstances due to which a potential conflict of interest may arise; (v) the first paragraph of Article 48 was amended with the provision that the Supervisory Board shall decide on the rights and obligations included in the agreement of a Management Board member; (vi) the existing second paragraph of Article 48 was deleted; the existing third paragraph became the second paragraph, which as of now stipulates that the members of the Management Board may be entitled to profit-sharing in the amount set by the General Meeting of Shareholders if so provided by the management body remuneration policy adopted by the Supervisory Board, which informs the General Meeting of Shareholders thereof, or by the General Meeting of Shareholders; (vii) in Article 53 the phrase "in accordance with the annual programme" was replaced by "in accordance with the annual work plan".

Composition and functioning of management or supervisory bodies and their committees/commissions

Abanka uses a two-tier management system. The Bank is run by the Management Board, whose work is supervised by the Supervisory Board. The governance of the Bank is based on the applicable legal regulations, the Articles of Association, internal documents, generally accepted business practices, the Corporate Governance Code and the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of the Slovenian Sovereign Holding (with certain exceptions and differences disclosed in the Statement of Compliance with the Corporate Governance Code).

Management Board

The Management Board runs the Bank's operations independently, for which it is fully responsible. In legal transactions, the Bank is always jointly represented by two members of the Management Board who are entitled to sign on its behalf. The Management Board is appointed and dismissed by the Supervisory Board. The Management Board has at least two and no more than five members, of whom one acts as its President. The number of Management Board members is determined by the Supervisory Board. The President and members of the Management Board are appointed for a five-year term with the possibility of reappointment. The Management Board reports to the Supervisory Board in accordance with the applicable regulations.

Each member of the Management Board has one vote. The decisions of the Management Board are adopted by a majority vote of all members. Where a vote is equal, the President holds the deciding vote. By a special decision adopted unanimously, the Management Board may authorise each of the Management Board members to take decisions on individual matters and transactions relating to the Bank's current operations at their own discretion.

If a member of the Management Board is appointed director or if their function in other companies and organisations has ended, they are required to immediately inform in writing the Bank, the Supervisory Board and the Bank of Slovenia or the European Central Bank.

A member of the Management Board is obligated to notify the Supervisory Board of the circumstances due to which a potential conflict of interest may arise with respect to the performance of the function of a Management Board member and of other circumstances that could affect the fulfilment of the conditions for the appointment as a Management Board member in line with the Banking Act, including any significant change which affects or could affect the Bank's assessment as to their suitability as a Management Board member.

In 2016, the Management Board was composed of Jože Lenič as its President and Aleksander Vozel and Matej Golob Matzele as its members.

The Management Board is responsible for the establishment and implementation of such an internal governance arrangement of the Bank, which will enable efficient and prudent management of the Bank based on clearly defined powers and duties as well as policies and measures for the prevention of conflicts of interest. The Management Board is fully responsible for the operations of the Bank and its risk management, including (i) the approval of strategic objectives of the Bank, adoption and regular review of the risk appetite and management strategy and internal governance arrangement; (ii) ensuring the integrity of the accounting and financial reporting systems, including financial and operational control as well as compliance with the applicable regulations and standards; (iii) monitoring of information disclosure procedures and procedures for notification of competent authorities and other stakeholders; and (iv) effective supervision of senior management. Furthermore, the Management Board regularly monitors and assesses the effectiveness of the internal governance arrangement, takes appropriate measures to eliminate any identified deficiencies, and informs and reports to the Supervisory Board.

A member of the Management Board must satisfy the statutory conditions for performing the function of a Management Board member throughout their entire term of office as well as (i) act with due skill and care and in particular ensure that the Management Board acts in line with the Banking Act; (ii) act honestly, fairly and independently so as to effectively evaluate and assess senior management decisions related to the management of the Bank; (iii) act in accordance with the highest ethical standards of governance, including the prevention of conflicts of interests; and (iv) devote sufficient time to effectively perform the function of a Management Board member.

Apart from that, a member of the Management Board has to ensure that the Bank operates in accordance with the general rules and regulations governing the performance of services and transactions provided by the Bank as well as any regulations issued on the basis thereof.

The Rules of Procedure of the Management Board stipulate the methods of its work, and distribute the areas of work and tasks among its members. The Management Board assigns individual organisational units of the Bank to its members and makes them responsible for their management and co-ordination.

The Management Board may transfer certain decision-making rights to **collective decision-making bodies**. The number and type of bodies is determined in the Rules on organisation, while the scope of authorisations is defined by the Management Board in a decision. The following bodies assist the Management Board in its work:

- **Assets and Liabilities Management Committee**

The Committee manages the Bank's liquidity, currency and interest risks, capital and capital adequacy, sets internal transfer rates, approves special terms and conditions for certain customers, as well as sets interest rates and a tariff charge system applicable to customers. As a rule, the Committee meets once a month. As at the end of 2016, the Committee had eight members. The Management Board appoints the Chairman, Vice Chairman and members of the Committee. The Committee members are appointed from among the Bank's employees with special authorisations.

- **Assets and Liabilities Management Commission**

This Commission decides on special terms and conditions for certain customers and sets interest rates and a tariff charge system for customers. As a rule, the Commission has regular meetings once a week. The Management Board appoints the Chairman, Vice Chairman and members of the Commission. The Commission members are appointed from among the Bank's employees with special authorisations. At the end of 2016, the Commission had seven members.

- **The Bank's Credit Committee**

With regard to investment management, the Credit Committee decides on borrowings to customers, credit limits for transactions with derivatives and repo transactions, decides on accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans or loan restructuring proposals and risk management reports, monitors how individual decision-making authorisations are exercised by the employees with special authorisations

and other employees as set out in the Management Board decisions regarding individual authorisations, monitors the implementation and realisation of internal resolutions of the body, decides on other matters and discusses other reports.

The Credit Committee is authorised to decide on the abovementioned investments if they have not been decided on in the framework of individual or Credit Commission authorisations or the Loan Watch Committee, within exposure limits to individuals or groups of related parties and other exposure limits set by the Bank, taking into account statutory limitations and the commitments made to the European Commission within the framework of the Bank's restructuring plan. Regular meetings of the Committee are convened once a week, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had five members.

- **Liquidity Commission**

The Commission designs the current liquidity, exchange and interest policies of the Bank. Regular meetings of the Commission are usually convened daily, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The Bank's Management Board adopts a decision on the Commission's composition, appointing its members and substitutes. As at the 2016 year-end, the Commission had ten members.

- **Risk Management Committee and Operational Risk Commission**

The Risk Management Committee monitors, steers and controls risk management of the Bank. Furthermore, the Committee assesses the appropriateness of the Risk Management Strategy, its related policies and methodologies and the recovery plan, monitors exposure to credit, market and operational risks, takes appropriate measures, manages other risks, discusses and approves the limit systems and the limits, monitors the implementation of restrictions designed to manage liquidity, currency, interest rate and market risks as well as exposure to foreign countries, individual activities and banks, monitors capital requirements, discusses the results of calculations of internal assessment of the capital requirements, the capital level and the related ratios, and takes appropriate measures. The Committee checks the adequacy of the selected risk indicators and risk-bearing capacity indicators and confirms them, defines the importance of business activities for the needs of the Bank's risk profile assessment, adopts measures to modify the risk profile and to increase the risk-bearing capacity, and performs other activities in the context of the ICAAP process and risk management in general. Regular meetings of the Committee are convened once a month, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had ten members.

The Operational Risk Commission is a working body of the Risk Management Committee. It is responsible for the development of the operational risk management system, it monitors the implementation of the operational risk management policy, it discusses reports on loss events and incidents as well as all the elements of operational risk, it reports to the Committee on important findings and proposes measures to eliminate the causes of their occurrence, it monitors the implementation of measures and reports to the Committee thereon.

- **Loan Watch Committee**

The Committee decides on the Bank's investments classified as non-performing, investments whose trustee is the Investments Under Scrutiny Department and investments determined by the Credit Committee. Furthermore, the Committee decides on borrowings to customers (including bilateral and syndicated loans) and accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans, recovery plans, loan restructuring proposals, proposals to initiate insolvency proceedings and the reports of the Investments Under Scrutiny Department, monitors the implementation and realisation of internal decisions, decides on other matters and discusses other reports. Regular meetings of the Committee are convened once a week, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had five members.

- **Development Committee**

The Committee is a collective decision-making body in charge of directing and supervising the management of development activities aimed at achieving the strategic objectives of the Bank. The Development Committee holds regular monthly meetings. The composition of the Committee is determined by the Management Board. As at the end of 2016, the Committee had eleven members.

- **Commission for the Treatment of High-Risk Customers in Terms of Money Laundering and Terrorist Financing Prevention**

The Commission for the Treatment of High-Risk Customers in Terms of Money Laundering and Terrorist Financing Prevention discusses cases of high-risk customers in order to take appropriate measures to ensure their conduct is in compliance with the applicable laws and to adopt measures for a comprehensive management of all types of risks to which the Bank is exposed or

would be exposed when dealing with such customers. The composition of the Commission is determined by the Management Board. The Committee's meetings are held when necessary. As at the 2016 year-end, the Commission had six members.

• Purchasing Commission

The Purchasing Commission is responsible for transparent conclusion of transactions related to the procurement of goods and services based on previously set and appropriately balanced selection criteria as well as on the basis of obtained comparable offers, which is the responsibility of the relevant departments of the Bank. The composition of the Commission is determined by the Management Board. At the end of 2016, the Commission had three members.

Supervisory Board

The Supervisory Board oversees the management of the Bank's business operations. It consists of seven members, who are appointed and dismissed by the General Meeting of Shareholders. Two thirds of the Supervisory Board members must be independent experts. Independent persons are those who are not or have not been employed by the Slovene Government within the last 24 months since their appointment to the Supervisory Board, or who have not performed a senior or managerial function in any Slovene political party within the last 24 months. Any natural person fulfilling the relevant requirements and for whom no restrictions were stipulated in the act regulating banking, the act regulating companies and other applicable regulations may be appointed to the Supervisory Board. The members of the Supervisory Board are appointed for a four-year term with the possibility of reappointment.

The Supervisory Board is responsible for the following: deciding on the appointment and dismissal of Management Board members and their remuneration; deciding on granting loans to Management Board members, authorised officers and other persons stipulated by law; approving the agreements between Supervisory Board members and the Bank; adopting and monitoring the implementation of general remuneration policy principles; deciding on granting loans to Supervisory Board members; reviewing and providing a written opinion on the Annual Report, including the auditor's report, and the profit distribution to the General Meeting of Shareholders in accordance with the second paragraph of Article 282 of the Companies Act (ZGD-1); approving the Annual Report; reviewing and providing opinions on financial and other reports by the Management Board; supervising the adequacy of internal control procedures and the effectiveness of the internal audit department; proposing nominees for the Supervisory Board to the General Meeting of Shareholders; submitting proposals to the General Meeting of Shareholders for the appointment of an auditor; proposing profit distribution to the General Meeting of Shareholders together with the Management Board; providing an opinion on the annual internal audit report to the General Meeting of Shareholders; reporting on the annual audit and auditing costs of the Bank to the General Meeting of Shareholders; discussing the findings of the Bank of Slovenia or the European Central Bank (ECB) if the ECB exercises the powers and duties of the supervision over the Bank in line with the EU regulations governing banking, as well as findings of other supervisory bodies in the bank supervision procedure; tax supervisory findings and other supervisory bodies in the bank supervision procedure; approving the operations of the Bank if such approval is required in the Articles of Association; deciding on amendments to the Articles of Association but only to the extent so as to adjust the wording of the Articles of Association to validly adopted decisions; adopting its own Rules of Procedure; and other competencies determined by the law or the Articles of Association.

The Supervisory Board gives its approval to the Management Board's long-term capital investments in other legal entities exceeding 1% of the bank capital, which is the sum of Tier 1 and Tier 2 capital in accordance with the applicable regulations; strategic business alliances; the Bank's corporate policy; the Bank's financial plan; organisation of an internal control system; the annual work plan of the Internal Audit Department; rules of the Internal Audit Department; conclusion of any legal transaction that, in consideration of the overall exposure of the Bank, would result in the Bank's large exposure to an individual customer; conclusion of any legal transaction due to which a large exposure of the Bank to an individual customer would equal or exceed 10% or every further 5% eligible capital of the Bank in line with the act regulating banking, which is the sum of Tier 1 and Tier 2 capital in accordance with the applicable regulations; conclusion of any legal transaction which would result in the Bank's exposure to the members of the Management Board and/or the Supervisory Board, authorised officers of the Bank and parties related to these persons; conclusion of any transactions with persons in a special relationship with the Bank in line with the act regulating banking; dismissal of the head of the risk management department; appointment and dismissal of the head of the internal audit department; write-off of receivables over EUR 1 million a year to an individual person or persons who are considered a group of related persons in line with the act regulating banking; raising loans; issuing bonds or subordinated debt instruments for every such assumed liability exceeding 25% of the book-value capital as well as to other matters stipulated by the law or the Articles of Association.

The Supervisory Board adopts resolutions at its sessions. The work of the Supervisory Board is performed in accordance with the Rules of Procedure of the Supervisory Board. The quorum of the Supervisory Board is constituted if a majority of members is present at a session. Decisions are adopted according to the majority of votes cast. Where a vote is equal, the Chairman shall hold the deciding vote.

As at 31 December 2016, the Supervisory Board of Abanka d.d. was made up of the following members:

- Marko Garbajs, Chairman, term starting on 4 October 2014;
- Melita Malgaj, Vice Chairman, term starting on 2 October 2015;
- Blaž Šterk, Member, term starting on 4 October 2014;
- Alenka Vrhovnik Težak, Member, term starting on 8 October 2015;
- Rok Pivk, Member, term starting on 13 May 2016;
- Vid Leskovec, Member, term starting on 31 May 2016.

In 2016, the terms of office of the following members ended: Janko Gedrih (resignation), Andrej Slapar (expiry) and Matjaž Trebše (resignation).

In the reporting year, the Supervisory Board held nine sessions and five correspondence sessions.

Supervisory Board Committees

The Supervisory Board forms committees as its consultative bodies. In line with the act regulating banking, the Bank set up four committees consisting of only the members of the Supervisory Board, whilst their manner of organisation and operation is governed by the applicable rules of procedure.

- In 2016, **the Audit Committee** was composed of the following members:

- from 1 January to 31 May 2016: Blaž Šterk as its Chairman, and Marko Garbajs, Matjaž Trebše and Melita Malgaj as its members;
- from 1 June to 8 August 2016: Blaž Šterk as its Chairman, and Matjaž Trebše, Melita Malgaj and Rok Pivk as its members;
- from 9 August to 24 August 2016: Blaž Šterk as its Chairman, and Melita Malgaj and Rok Pivk as its members;
- from 25 August 2016 onwards: Blaž Šterk as its Chairman, and Melita Malgaj, Rok Pivk and Alenka Vrhovnik Težak as its members.

The main purpose of the Audit Committee is to support the Supervisory Board in the execution of their supervisory duties related to the supervision of the organisation and efficiency of operations, putting emphasis on the quality and appropriateness of the risk management system and the internal control system with respect to financial reporting, compliance with the regulations and internal documents of the Bank, compliance of internal auditing, and adherence to the Code of Business Ethics and to the procedures for assessing the external auditor's independence. The Committee promotes transparent reporting and an efficient governance system of the banking group and creates added value by giving independent and impartial assurances to the Supervisory Board. The Committee held eight meetings and one correspondence meeting in 2016.

- In 2016, **the Compensation Committee** had the following composition:

- from 1 January to 30 May 2016: Andrej Slapar as its Chairman and Alenka Vrhovnik Težak and Matjaž Trebše as its members;
- from 31 May to 8 August 2016: Matjaž Trebše was as its Chairman and Alenka Vrhovnik Težak and Vid Leskovec were its members;
- from 9 August to 24 August 2016: Alenka Vrhovnik Težak and Vid Leskovec as its members;
- from 25 August 2016 onwards: Marko Garbajs as its Chairman and Alenka Vrhovnik Težak and Vid Leskovec as its members.

The main purpose of the Compensation Committee is to support the Supervisory Board in the execution of their supervisory duties in relation to preparing decisions on remuneration, including those having an impact on the risks and risk management of the Bank. The Committee held four meetings in 2016.

- In 2016, **the Human Resource Committee** had the following composition:

- from 1 January to 9 February 2016: Janko Gedrih as its Chairman, and Andrej Slapar and Melita Malgaj as its members;
- from 10 February to 25 February 2016: Andrej Slapar and Melita Malgaj as its members;
- from 25 February to 30 May 2016: Marko Garbajs as its Chairman, and Andrej Slapar and Melita Malgaj as its members;
- from 31 May 2016 onwards: Marko Garbajs as its Chairman, and Melita Malgaj and Vid Leskovec as its members.

The main purpose of the Committee is to support the Supervisory Board in the execution of their supervisory duties with respect to staffing issues involving the Management Board and the Supervisory Board membership. The Committee held six meetings and one correspondence meeting in 2016.

- In the reporting period, **the Risk Monitoring and Asset Liability Management Committee** had the following composition:
 - from 1 January to 9 February 2016: Marko Garbajs as its Chairman, and Janko Gedrih, Alenka Vrhovnik Težak and Blaž Šterk as its members;
 - from 10 February to 30 May 2016: Marko Garbajs as its Chairman and Alenka Vrhovnik Težak and Blaž Šterk as its members;
 - from 31 May 2016 onwards: Alenka Vrhovnik Težak as its Chairman, and Marko Garbajs, Blaž Šterk and Rok Pivk as its members.

The main purpose of the Committee is to support the Supervisory Board in the execution of its supervisory duties with respect to taking decisions related to the risk management function, the risk profile and the control of asset liability management in the Bank. In 2016, the Committee met seven times.

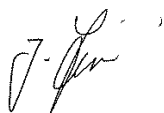
Abanka d.d. is committed to further strengthen its corporate governance and raise the corporate culture.

Ljubljana, 23 February 2017

Management Board

Jože LENIČ

President of the Management Board



Aleksander VOZEL

Member of the Management Board



Matej GOLOB MATZELE

Member of the Management Board



Supervisory Board

Marko GARBAJS

Chairman of the Supervisory Board

