

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 internal governance, on the assessment of the suitability of members of the management body and key function holders as well 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. The governance of the Bank is defined in the Articles of Association of Abanka d.d. and the Governance Policy of Abanka d.d. The governance of subsidiaries in the Abanka Group is defined in the Framework Corporate Governance Policy of the Abanka Group, which stipulates that even subsidiaries must comply with the corporate governance standards that apply to the parent company of the Abanka Group, in proportion to the characteristics, scope and complexity of their operations. The governance policies and practices of Abanka are publicly accessible on its website at <http://www.abanka.si/>.

In 2018, 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 corporate governance codes.

Statement of Compliance with Corporate Governance Codes

The Management and Supervisory Boards declare that in their work and operations in 2018 Abanka d.d. observed the corporate governance recommendations as set out in:

- **Corporate Governance Code for Listed Companies** adopted by the Ljubljana Stock Exchange d.d., Ljubljana and the Slovenian Directors' Association on 27 October 2016. The Code is available on the website of the Ljubljana Stock Exchange at <http://www.ljse.si>.
- **Corporate Governance Code for Companies with Capital Assets of the State** adopted by Slovenski državni holding d.d. (hereinafter: SDH) in May 2017 and the **Recommendations and Expectations** of Slovenski državni holding d.d. adopted in March 2018. Both documents are published on the SDH's 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 for Listed Companies

Code provision 6.2: 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 12.3: The scope of topics and time frames to be respected by the Management Board in its regular reporting to the Supervisory Board are not set in the Rules of Procedure of the Supervisory Board but in a separate document – an annual calendar of meetings of the Supervisory Board and its committees, including the planned scope of topics to be discussed, which is approved by the Supervisory Board at its last session of each year for the following year. The Management Board promptly provides materials for the Supervisory Board sessions, both in writing and in electronic form (by ensuring adequate protection), while seeking to improve the quality of the materials.

Code provision 12.8: The manner of communicating with the public with respect to the decisions adopted at a Supervisory Board session is not stipulated by the Rules of Procedure of the Supervisory Board, but the manner of publishing announcements and data of the Bank is determined by the Articles of Association of Abanka d.d.

Code provision 15.3: Until 4 September 2018, the Chairman of the Supervisory Board was at the same time the Chairman of the Nomination Committee, whereas since that date he has been its member.

Code provision 27.4: Given that the Bank is wholly-owned by one shareholder, it ensured the transparency of operations by timely and appropriately informing the shareholder of the expected dates of its significant announcements.

Code provision 29.7: The Bank disclosed the remuneration of each Management Board member for 2017 by disclosing the total gross amount of the variable part of remuneration but not the gross amount broken down to the items calculated based on quantitative and qualitative criteria.

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

Code provision 6.15.1: Until 4 September 2018, the Chairman of the Supervisory Board was at the same time the Chairman of the Nomination Committee, whereas since that date he has been its member.

Code provision 8.3: The Bank disclosed the remuneration of each Management Board member for 2017 by disclosing the total gross amount of the variable part of remuneration but not the gross amount broken down to the items calculated based on quantitative and qualitative criteria.

Code provision 8.5: Given that the Bank is wholly-owned by one shareholder, it ensured the transparency of operations by timely and appropriately informing the shareholder of the expected dates of its significant announcements.

c) Recommendations and Expectations of the Slovenian Sovereign Holding

Recommendation No. 5: Attainment of quality and excellence in operations: 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, with their activities, the qualified internal control functions contribute to higher quality of the Bank's operations through their activities.

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

The Bank maintains and implements a robust internal governance system that includes an internal control system and appropriate risk management processes. The internal control system addresses all material risks in the Bank. Internal controls are established at the level of ongoing internal controls (reporting, work procedures, separation of powers and responsibilities, and automatic and manual controls) and include the verification of administrative and accounting procedures at all stages of the accounting process. They are embedded in business and support processes for carrying out core and ancillary activities of the Bank. Internal controls are also performed at the level of independent internal control functions (risk management, compliance and internal audit), which – each within its respective powers – checks or ensures compliance of the Bank with the applicable regulations, internal documents and measures adopted on their basis.

In order to provide quality, reliable and comprehensive accounting information and, consequently, correct and timely financial reporting, the Bank performs accounting control through the operation of the entire accounting function. The day-to-day security of the implementation of tasks is managed through an appropriate system of authorisations, separation of duties, compliance with accounting rules, business event documentation, the custody system, built-in control mechanisms in analytical applications and archiving in accordance with the applicable legislation and internal regulations. The Bank ensures the reliability of the support system for business operations and decision-making as well as compliance with legal and other requirements through effective implementation of primary accounting control, which is mostly carried out in analytical accounting, and secondary accounting control, which is aimed at verifying the effectiveness of primary accounting controls.

The basic risk appetite framework of Abanka consists of the Risk Management Strategy and Risk Appetite, Risk Management Limits, and ICAAP and ILAAP Rules, all revised in 2018, which provide the basis to identify, measure or assess, manage, monitor and adequately report on all material risks to which the Bank is or could be exposed in its operations.

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 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 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.

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 37th General Meeting of Shareholders held on 17 May 2018, the shareholders took note the Annual Report of Abanka for 2017 and remuneration of the members of the Supervisory and Management Boards for 2017. In addition, they were briefed on the accumulated profit for 2017, which totalled EUR 60,456,785.06 consisting of the remaining net profit for 2017 of EUR 38,357,934.65 and profit brought forward in the amount of EUR 22,098,850.41 as at the 2017 year-end. The General Meeting of Shareholder decided that a part of accumulated profit for 2017 in the amount of EUR 42,619,927.39 shall be allocated to dividend payments, whereas the remaining part of the profit amounting to EUR 17,836,857.67 shall be allocated to profit brought forward. Furthermore, the General Meeting of Shareholders decided that the Bank shall pay out the dividends on 29 May 2018 according to the balance as at one business day before the payment date. The General Meeting of Shareholders granted a discharge to the Management and Supervisory Board members and adopted the Annual Internal Audit Report of Abanka d.d. for 2017, including the opinion of the Supervisory Board. Furthermore, it appointed Deloitte Revizija d.o.o. as auditors of Abanka's and the Abanka Group's Annual Report for a three-year period (2018–2020) and appointed Marko Garbajs a Supervisory Board member for a four-year term of office, starting on 5 October 2018.

At the 38th general Meeting of Shareholders held on 30 July 2018, the shareholders took note of the resignation of two members of the Supervisory Board, i.e. Peter Merc as of 9 July 2018 and Bernarda Babič as of 5 July 2018. Varja Dolenc was appointed a Supervisory Board member with a four-year term of office, commencing on 31 July 2018.

At the 39th General Meeting of Shareholders held on 21 September 2018, Miha Košak was appointed a Supervisory Board member with a four-year term of office starting on 22 September 2018. The General Meeting of Shareholders agreed with the spin-off to establish the new company Ahive, upravljanje s terjatvami d.o.o. with the short name Ahive, d.o.o., headquartered in Ljubljana, business address at Trdinova ulica 4 in Ljubljana and the share capital of EUR 7,500.00, with Abanka d.d. acting as the transferring company.

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 for Listed Companies, the Corporate Governance Code for State-Owned Enterprises and the Recommendations and Expectations of the Slovenian Sovereign Holding (with certain exceptions and differences disclosed in the Statement of Compliance with Corporate Governance Codes).

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.

The composition of the Management Board in 2018 is presented in Appendix 1 of the Corporate Governance Statement.

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.

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 diligence 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 adopts its decisions at regular and extraordinary meetings. If needed, the Management Board convenes a meeting with select or several senior management members to share information, coordinate the operations of the Bank and discuss other important business matters.

The data on the remuneration of the Management Board members for 2018 are disclosed in *Appendix 2 of the Corporate Governance Statement*.

The Management Board may transfer certain decision-making rights to executive and other employees as well as to **collective decision-making bodies**. The number and type of bodies is determined in the rules on organisation, while the composition, scope of powers and working methods are defined by the rules of procedure of an individual body. In 2018, the Bank's committees were as follows:

- **Risk Management and Asset-Liability Committee**

The Committee is in charge of monitoring and assessing the appropriateness of the risk management strategy, policies and methodologies, the appropriateness of the recovery plan and all ICAAP and ILAAP elements, monitoring risk exposure and taking appropriate action, capital and capital adequacy management, monitoring security in its broadest sense, discussing and approving the limit system so as to manage risks, exposure to banks, examining internal transfer prices, considering and deciding on transactions that have a material impact on the Bank's position in terms of liquidity, interest rates, currencies and capital. The Committee is composed of Management Board members and senior management representatives. The Management Board appoints the Committee Chair, Vice Chair and members as well as the persons with a standing invitation to attend the Committee meetings. As at the 2018 year-end, the Committee had nine members. Regular meetings of the Committee are convened once a month, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence.

• **Operational Risk Commission**

The Operational Risk Commission is a working body of the Risk Management and Asset-Liability Committee in charge of the development of the operational risk management system within the Bank. The duties of the Commission include in particular: monitoring the implementation of the operational risk management policy, discussing reports on loss events and incidents and proposing the adoption of appropriate measures to the Risk Management and Asset-Liability Committee, monitoring the implementation of measures and reporting thereon, discussing all operational risk elements, making proposals to change and improve operational risk management, discussing the proposals to change business roles and performing other operational risk-related activities. The Commission is composed of representatives of various divisions and/or departments of the Bank. The Commission adopts decisions at regular meetings, which are usually held every quarter. Extraordinary meetings are convened when necessary and may be held by correspondence.

• **Credit Committee**

With regard to asset management, the Committee decides on borrowings to customers, credit limits, accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans, recovery plans, investment restructuring proposals, proposals to initiate insolvency proceedings, discusses reports, monitors the execution of powers of authorised employees and the implementation of the Committee's decisions, as well as decides on other matters. The Committee is composed of two Management Board members and heads of various divisions and/or departments. The Management Board appoints the Committee Chair, Vice Chair and members as well as the persons with a standing invitation to attend the Committee meetings. At the 2018 year-end, the Committee had six members. Regular meetings of the Committee are convened once a week, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence.

• **Development Committee**

With regard to project work, the Committee is in charge of adopting a strategic annual plan for development activities, an annual investment plan and a plan of available internal human resources for the implementation of development activities, classifying all development activities in the portfolio of development activities, supervising the implementation of development activities and initiatives relating to data management, monitoring the implementation of regulatory projects and other strategically important projects, deciding on proposals and overseeing the work of the Development Board, as well as giving initiatives and proposals to the Management Board. The Committee is composed of Management Board members and heads of various divisions and/or departments. The Management Board appoints the Committee Chair, Vice Chair and members as well as the persons with a standing invitation to attend the Committee meetings. As at the 2018 year-end, the Committee had fourteen members. Regular meetings of the Committee are convened every three months, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence.

• **Development Council**

With regard to project work, the Council assesses proposals for capacity development and takes decisions on how to continue to implement development activities, takes decisions at all stages of the project lifecycle and development task, decides on development activities within the approved plan while monitoring the availability of human resources, monitors the implementation of projects, development tasks and other development activities, prepares a draft annual plan for development activities and possible changes, directs and controls the development of data management, as well as develops proposals for discussion at the Development Committee. The Council is composed of two Management Board members and heads of various divisions and/or departments. The Management Board appoints the Chair, Vice Chair and members as well as the persons with a standing invitation to attend the Council meetings. As at the 2018 year-end, the Council had five members. Regular meetings are convened once in two weeks but at least once a month, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence.

• **Sales and Marketing Committee**

The Committee monitors market trends, the trends and activities of competitors on the market in terms of prices and content of products, sales channels and responsiveness, defines key performance indicators, monitors, supervises, directs and coordinates marketing activities, monitors the business results, promotes the creation of new products and approves their launch, monitors surveys on the Bank's reputation, market position and customer satisfaction, as well as adopts appropriate measures. The Committee is composed of Management Board members and heads of various divisions and/or departments. The Management Board appoints the Committee Chair, Vice Chair and members as well as the persons with a standing invitation to attend the Committee meetings. As at the 2018 year-end, the Committee had ten members. Regular meetings of the Committee are convened once a month, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence.

• **Liquidity Commission**

The Commission designs the current liquidity, currency and interest policies of the Bank, sets interest rates on the deposits of corporate, retail and private clients and specifies other special terms and conditions regarding these deposits, as well as performs other duties within its powers. The Commission is composed of Management Board members and heads of various divisions and/or departments. The Management Board appoints the Chair, Vice Chair and members of the Commission. As at the 2018 year-end, the Commission had eleven members. Regular meetings of the Commission are usually convened once a day, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence.

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

The Commission 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 or could be exposed when dealing with such customers. The Commission is composed of representatives of various divisions and/or departments of the Bank. The Commission's meetings are held when necessary. As at the 2018 year-end, the Commission had six members.

• Procurement Commission

The Procurement 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. The Commission meets when necessary and at the request of the department proposing individual purchases. As at the 2018 year-end, 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 on the Management Board's proposal on 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 when they relate to the Bank, findings of the tax investigation 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 any further 5% of eligible capital of the Bank in line with the act regulating banking, which is the sum of Tier 1 and Tier 2 capital in line 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. The decisions are adopted according to the majority of votes cast by the members present. In the event of a tie, the Chairman holds the deciding vote.

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.

• Audit Committee

The duties of the Committee include in particular: a) monitoring the integrity of financial information provided by the Bank; b) monitoring the financial reporting process, preparing recommendations and making recommendations for ensuring its integrity and comprehensiveness; c) supervising and monitoring the effectiveness and efficiency of the internal governance system; d) assessing the drafting of the annual report; e) monitoring the statutory audit of annual and consolidated financial statements; f) cooperating with the auditor in conducting the audit of the annual report of the banking group; g) reporting to the Supervisory Board on the result of the statutory audit; h) reviewing and monitoring the independence of the auditor for the annual report of the banking group; i) participating in the identification of important audit areas and reviewing the frequency of auditing of financial statements; j) cooperating with the Internal Audit Department and monitoring its work; k) participating in the identification of important audit areas; l) being in charge of the auditor selection procedure and proposing a candidate to the Supervisory Board for auditing the annual report of the banking group; m) participating in the drafting of an agreement between the auditor and the Bank; n) monitoring the effectiveness and efficiency of the internal control system; o) monitoring or supervising the establishment of the accounting policies of the banking group; p) other duties as defined by the law, the Bank's Articles of Association, the guidelines of supervisory bodies or a Supervisory Board resolution.

• Remuneration Committee

The duties of the Committee include in particular: a) advising to the Supervisory Board and drafting proposals regarding general remuneration policy principles, reviewing the adequacy of the general remuneration policy principles and preparing recommendations for their implementation; b) performing professional and independent assessments of remuneration policies, practices and processes and on that basis developing incentives or recommendations to amend the existing remuneration policy as well as measures to improve the Bank's risk, capital and liquidity management; c) ensuring a regular, central and independent audit of remuneration policy and practices by the Internal Audit Department, the relevant corporate functions and other Supervisory Board committees as well as providing all the required information (reports) to the Supervisory Board; d) providing support to the Supervisory Board in establishing and implementing the remuneration system for the Management Board and other employees whose professional activities significantly affect the institution's risk profile; e) monitoring the remuneration of senior managers who perform the risk management and compliance functions; f) assessing the adequacy of the established policies and methodologies (mechanisms) of the remuneration system with respect to risk, capital and liquidity management, as well as assessing compliance with the business strategy, objectives, corporate culture, values and the long-term interest of the institution; g) assessing the achievement of performance targets and the need for ex-post risk adjustment, including the use of malus and clawback arrangements; h) reviewing various possible scenarios with a view to verifying the response of the remuneration policy and practice to external and internal events and testing the criteria used to determine the allocation and preliminary adjustments of variable remuneration on the basis of the results of realised risks; i) reviewing the suitability of an external consultant whose services are used by the Supervisory Board in determining the remuneration policies of the bank or other issues within the powers of the Committee; j) informing shareholders about remuneration policies and practices; k) actively engaging in the process of identifying employees whose work is of a specific nature; l) ensuring the participation of a member of the Risk Monitoring and Asset Liability Management Committee in the Remuneration Committee's meetings, and vice versa; m) other duties set out in the Articles of Association or a Supervisory Board resolution.

• Nomination Committee

The duties of the Committee include in particular: a) defining and preparing the fit and proper assessments of the candidates and members of the Management and Supervisory Boards and of the two bodies as a whole; b) making recommendations to the Supervisory Board regarding the selection of candidates for members of the Management and Supervisory Boards; c) defining the duties and conditions required for appointment to a Management Body function; d) setting a gender representation target for the gender that is underrepresented in both the Management Board and the Supervisory Board and formulating a policy on how to increase the number of representatives of the underrepresented gender in the Management Board and the Supervisory Board so as to achieve this target; e) evaluating at least once a year the structure, size, composition and performance of the Management Board and the Supervisory Board, and making recommendations regarding any changes; f) at least once a year assessing the knowledge, skills and experience of individual members of the Management Board and the Supervisory Board as well as bodies as a whole, and reporting thereon to the Supervisory Board and the Management Board; g) regularly reviewing the policy of the Management Board with regard to the selection and appointment of suitable candidates for members of senior management of the Bank and making recommendations regarding any changes; h) actively contributing to fulfilling the Bank's responsibility to adopt appropriate policies on fit and proper assessment of the members of the Management Board and the Supervisory Board; i) providing support in evaluating the work of the Management Board and preparing

explanatory reasons for recalling individual members of the Management Board, when they occur; j) other duties set out in the Articles of Association or a Supervisory Board resolution.

• **Risk Monitoring and Asset Liability Management Committee**

The duties of the Committee include in particular: a) advising on the general current and future risk appetite and the risk management strategy of the Bank, b) reviewing the Bank's exposure to risks and verifying that the risk profile of the Bank is in accordance with the adopted risk appetite; c) monitoring the quality of the investment portfolio of the Bank and the adequacy of impairments and provisions formed; d) analysing the organisation and performance of risk management of the competent organisational parts of the Bank; e) reviewing the Management Board's reports on risks and asset liability management; f) reviewing and assessing the appropriateness in the drafting of documents governing risk underwriting, risk management and asset liability management; g) assessing the adequacy of the Bank's risk reporting as set out by the applicable regulations; h) monitoring the implementation of the risk management strategy and the policies for all relevant types of risks in the Bank; i) verifying that the incentives provided by the remuneration system take into account the risks, capital, liquidity, and the probability and timing of the Bank's income, with the aim of formulating prudent remuneration practices and policies; j) actively engaging in the process of identifying employees whose work is of a specific nature; k) ensuring the participation of a Committee member in the Remuneration Committee meetings, and vice versa; l) verifying that the prices of products are fully compatible with the Bank's business model and risk management strategy, and drafting corrective action proposals; m) preparing recommendations to the Supervisory Board regarding the implementation of the risk management strategy and related policies; n) other duties as defined by the law, the Bank's Articles of Association or a Supervisory Board resolution.

The composition of the Supervisory Board and its committees in 2018 is presented in Appendix 3 of the Corporate Governance Statement.

Activities of the Supervisory Board and its committees in 2018

	Number of regular sessions	Number of extraordinary sessions	Number of correspondence sessions
Supervisory Board	10	2	1
Audit Committee	11	0	0
Risk Monitoring and Asset Liability Management Committee	11	0	0
Nomination Committee	11	0	0
Remuneration Committee	8	0	0

The data on the remuneration of the Supervisory Board and its committees in 2018 are disclosed in Appendix 4 of the Corporate Governance Statement.

Diversity policy

Taking into account the diversity requirements within the management body, the Bank aims to ensure appropriate gender balance, education, professional experience and expertise, while striving for the management body to have all the relevant knowledge, experience and skills required for an effective performance of the Bank's management and supervisory functions. In October 2018, the Diversity Policy of the Management Body of Abanka d.d. was adopted, which sets (i) the criteria for management body diversity, (ii) the selection procedure of candidates for the members of the management body, and (iii) fit and proper assessment of the management body. Based on the defined elements of management body diversity, the Bank seeks to achieve the objective of effective performance of the management and supervisory functions.

The goal is to ensure such a composition of the management body, whose members:

- have different types of education acquired based on the applicable educational programmes;
- have a diverse professional profile, i.e. work experience and skills from different fields of expertise, which are necessary for an in-depth understanding of the Bank's activities and risks to which the Bank is exposed; and
- are representatives of both genders of different ages: a member of the management body is selected between a candidate who fulfils the fit and proper criteria and a candidate of the underrepresented gender, explaining the choice made. If the list of candidates of both genders of different ages is too short, the principle of diversity may be ignored in order to ensure the smooth functioning of the management body.

In periodic/annual fit and proper assessment of the management body or in the case of changed circumstances, the Nomination Committee checks the fulfilment of objectives with regard to the diversity in the composition of the management body and reports to the Supervisory Board.

The Committee assesses in particular the following:

- the diversity of the body, which ensures professional and independent participation of the body in setting the objectives, strategies and policies of risk underwriting and management;
- whether the body enjoys the trust of the shareholders, the supervisory/management body, other stakeholders and supervisory institutions;
- whether the body is a strong collegial body, in which decisions are taken jointly despite different views;
- whether the body keeps updated on innovations in governance and the fields of expertise required for performing the function in the Bank;
- whether the body undertakes training with the aim of developing and maintaining an adequate level of expert knowledge of the Bank;
- whether the body cooperates with the Supervisory Board or the Management Board in a transparent manner;
- whether the selection process of candidates for the members of the Management and Supervisory Boards is sufficiently clearly defined and implemented in accordance with the set criteria;
- whether there are members on the body who have appropriate banking knowledge and experience;
- the implementation of the succession concept;
- performance of the management body; and
- efforts to achieve an appropriate gender and age balance in both the Management Board and the Supervisory Board and the fulfilment of other requirements set out in the Diversity Policy of the Management Body of Abanka d.d.

When assessing or evaluating the management body and the committees in terms of diversity, the Nomination Committee analyses the following criteria:

- gender,
- age,
- education,
- work experience (relating to the business activity and other) and banking knowledge.

According to the analysis performed in 2018 and presented in the Joint Periodic Assessment Report, the Diversity Policy is properly implemented and taken into account in the composition of the management body. During the analysis in 2018, the Bank set up an accompanying maturity model with target values for individual content items. The target values are set for the 2019–2021 period and will be regularly monitored in the context of periodic fit and proper assessments of the management body. This system provides retrospective comparability of assessment, as well as regular monitoring of progress and improvements.

The diversity policy is publicly accessible and published in its entirety on Abanka's website at <http://www.abanka.si/>.

Corporate integrity

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.

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

The Corporate Governance Statement is published on Abanka's website at <http://www.abanka.si/>.

Ljubljana, 5 March 2019

Management Board

Jože LENIČ

President of the Management Board



Matej GOLOB MATZELE

Member of the Management Board



Matevž SLAPNIČAR

Member of the Management Board



Supervisory Board

Marko GARBAJS

Chairman of the Supervisory Board



Appendix 1: Composition of the Management Board in 2018

2018

Management Board	Function	Area of work	First appointment to the office	Termination of office	Year of birth	Education	Professional profile	Membership in supervisory bodies of non-related companies
Jože Lenič	President of the Management Board	Compliance Department	17 January 2011		1965	Master of Economic Science	Management, corporate governance, compliance, legal affairs, human resources and organisation, audit	Bank Association of Slovenia (ZBS), SB Member
		Internal Audit Department				BA in Geography and Geology		
		Legal Office						
		Personnel and Organisation Department						
		Corporate Communications Department						
		Financial Markets Division						
		Procurement and General Affairs Department						
		Coordination of work with the regulator and supervisory bodies						
		Coordination of subsidiaries						
Matej Golob Matzele	Member of the Management Board	Corporate Banking Division	28 December 2015		1972	BSc in Economics	Management, front office, development of products and services, marketing and marketing communications	Bankart d.o.o., Member of the Supervisory Board, British-Slovenian Chamber of Commerce, Member of the Supervisory Board
		Retail Banking and Small Business Division						
		Development and Marketing Department						
Matevž Slapničar	Member of the Management Board	Risk Management Division	12 June 2017		1969	Master of Economic Science	Management, risk management, IT, finance, back office	/
		Finance Division						
		Information Technology Division						
		Back Office Operations Divisions						
		Custody and Administrative Services						

Appendix 2: Remuneration of the Management Board in 2018

2018

First and last name	Function	Fixed remuneration – gross	Variable remuneration – gross	Deferred remuneration	Termination payments	Benefits	Clawback	Total gross	Total net
		1	2	3	4	5	6	1+2+3+4+5+6	
Jože Lenič	President of the Management Board	129,036.96	6,387.34	-	-	17,259.04	-	152,683.34	57,593.18
Matej Golob Matzele	Member	126,655.60	6,273.80	-	-	9,541.60	-	142,471.00	63,919.70
Matevž Slapničar	Member	126,812.51	3,659.72	-	-	9,158.18	-	139,630.41	60,488.51
Aleksander Vozel ²		-	1,568.45	-	-	-	-	1,568.45	1,221.82
		382,505.07	17,889.31	-	-	35,958.82	-	436,353.20	183,223.21

¹ The table does include cost reimbursement, insurance premiums (SVPI) and other rights under the agreement.

² Management Board Member until 31 March 2017.

Appendix 3: Composition of the Supervisory Board and its Committees in 2018

2018

First and last name Function	First appointment to the office	Termination of office In 2018	Attendance of the SB sessions according to the total number of sessions in 2018	Gender	Nationality	Year of birth	Education	Professional profile	Membership in other companies (executive and non-executive posts) in 2018
Marko Garbajs									
Supervisory Board, Chairman	04 October 2014	expiry of term of office on 4 October 2018 and reappointment on 5 October 2018	100%	M	SLO	1975	MSc in Economics	Management, management of capital investments	GRIFON&ROMANO S.P.A., Director until 19 December 2018, as of 20 December 2018 serves as a non- executive president of the management body INOXPOINT, Director until 19 December 2018
Nomination Committee, Chair until 4 September 2018, Member as of 5 September 2018	25 February 2016		100%						
Risk Monitoring and Asset Liability Management Committee, Member	13 October 2014		100%						
Melita Malga									
Supervisory Board, Vice Chair (since 25 February 2016)	02 October 2015		92.3 %	F	SLO	1971	BSc in Economics	Management and organisation, management of capital investments	Slovenski državni holding d.d., Director of Tourism and Economy Management Department
Nomination Committee, Member until 4 September 2018, Chair as of 5 September 2018	11 November 2015		100%						
Audit Committee, Member	11 November 2015		100%						
Remuneration Committee, Member	10 July 2018	04 September 2018	100%						
Alenka Vrhovnik Težak									
Supervisory Board, Member	08 October 2015		92.3%	F	SLO	1968	Master of Science in Business and Organisation	Management, international and strategic finance, court- appointed expert witness in economics and finance	VTT, storitve z dodano vrednostjo d.o.o., Authorised Officer and Financial Adviser until 30 September 2018, as of 1 October 2018 acts as a Financial Adviser Sodno izvedništvo in svetovanje, Mag. Alenka Vrhovnik Težak, Sodna izvedenka za ekonomijo - finance, s.p.
Remuneration Committee, Member, Chair (as of 10 November 2017) until 9 July 2018, and Member as of 10 July 2018	11 November 2015		87.5 %						
Audit Committee, Member	25 August 2016	08 October 2018	100%						
Risk Monitoring and Asset Liability Management Committee, Chair	11 November 2015		90.9%						
Rok Pivk									
Supervisory Board, Member	13 May 2016		92.3%	M	SLO	1972	BSc in Economics	Management, investment banking and treasury	Triglav Osiguranje A.D., Skopje, Executive Director Skupna pokojninska družba d.d., SB Member until 30 August 2018
Remuneration Committee, Member until 9 July 2018, Chair as of 10 July 2018	10 November 2017		87.5%						
Audit Committee, Member	01 June 2016		90.9%						
Dejan Kaisersberger									
Supervisory Board, Member	28 February 2017		92.3%	M	SLO	1979	BSc in Economics	Management, banking and finance, risk management	SIDG, d.o.o., Director of Finance, Accounting and Controlling
Nomination Committee, Member	31 August 2017		100%						
Audit Committee, Chair	13 March 2017		90.9%						
Risk Monitoring and Asset Liability Management Committee, Member	13 March 2017		81.8%						
Varja Dolenc									
Supervisory Board, Member	31 July 2018		100%	F	SLO	1971	BSc in Economics, MSc in International Securities, Investment and Banking	management, financial markets, front office operations, knowledge of the domestic banking environment and the internal organisation of the Bank	Union hoteli d.d., Ljubljana, Director of Procurement and Real Property Management
Remuneration Committee, Member	05 September 2018		100%						
Risk Monitoring and Asset Liability Management Committee, Member	05 September 2018		100%						
Miha Košak									
Supervisory Board, Member	22 September 2018		100%	M	SLO and UK*	1968	Master of Business Administration (MBA), Master of Arts in Economics of the European Community (MA)	international knowledge of the banking system, financial markets and investment banking, knowledge of the internal organisation of the Bank, corporate governance	Fraport Slovenija d.o.o., Member of the Advisory Committee; Independent Consultant, Independent Consultant; Emona Capital LLP, London, Adviser; Elan Inventa d.o.o., Member of the Strategy Committee; Šiaulių Bankas, Vilnius, Lithuania, Member of the Supervisory Board; The British Slovenian Chamber of Commerce, London, UK/Ljubljana, Slovenia, Member of the Management Board
Audit Committee, Member	09 October 2018		100%						
Bernarda Babič									
Supervisory Board, Member	01 January 2018	05 July 2018	100%	F	SLO	1966		financial markets, accounting, treasury, knowledge of the domestic banking environment	Slovenske železnice, d.o.o., Assistant to General Director; Terme Olimia d.d., Chair of the Supervisory Board; Telekom Slovenije, d.d., Vice Chair of the Supervisory Board
Risk Monitoring and Asset Liability Management Committee, Member	01 January 2018	05 July 2018	100%						
Audit Committee	01 January 2018	05 July 2018	100%						
Peter Merc									
Supervisory Board, Member	11 October 2017	09 July 2018	83.3 %	M	SLO	1983	PhD	Management, banking and financial law, digitisation, legal advice in IT	Lemur Legal d.o.o., Authorised Officer until 8 March 2018; Pravno, poslovno in finančno svetovanje Merc, Peter Merc, s.p.
Remuneration Committee, Member	10 November 2017	09 July 2018	75 %						
Risk Monitoring and Asset Liability Management Committee, Member	10 November 2017	09 July 2018	100%						

*citizenship of the United Kingdom of Great Britain and Northern Ireland

All members of the Supervisory Board are independent and no conflict of interest existed.

Appendix 4: Remuneration of the Supervisory Board and its Committees in 2018

2018

First and last name	Function	Basic SB payment – gross	Attendance fees for the Supervisory Board and committees – gross	Total – gross	Total – net*	Travel expenses – net
		1	2	1+2		
Bernarda Babič ¹	Member	11,552.42	4,070.00	15,622.42	11,270.97	–
Varja Dolenc ²	Member	6,831.99	2,200.00	9,031.99	6,488.67	–
Marko Garbajs	Chairman of the Supervisory Board	31,427.08	8,140.00	39,567.08	28,696.94	–
Dejan Kaisersberger	Member	28,125.00	9,625.00	37,750.00	27,375.42	1,010.63
Miha Košak ³	Member	3,419.35	770.00	4,189.35	2,659.22	3,771.44
Melita Malgaj	Vice Chair	25,023.85	8,305.00	33,328.85	24,159.89	–
Peter Merc ⁴	Member	13,669.35	3,850.00	17,519.35	12,741.83	–
Rok Pivk	Member	23,235.89	6,886.00	30,121.89	21,827.36	3,082.82
Blaž Šterk ⁵	Member	1,875.00	495.00	2,370.00	1,723.70	–
Alenka Vrhovnik Težak	Member	28,719.76	9,185.00	37,904.76	27,487.87	620.61
		173,879.69	53,526.00	227,405.69	164,431.87	8,485.50

* The amount paid to an individual's account as remuneration after income tax prepayment, which does not take into account a potential subsequent surcharge of prepayment.