

## 2.2

### **ADOPTION OF THE RESOLUTION ON THE USE OF DISTRIBUTABLE PROFIT FOR 2020**

#### ***Ad 2.2 Proposed resolution for item 2.2 on the agenda of the 33rd general meeting of SID banka, d.d., Ljubljana (hereinafter: SID Bank)***

Based on the proposal of the management board and supervisory board, the company's general meeting hereby adopts the following resolution:

"Distributable profit amounted to EUR 4,032,728.09 as at 31 December 2020 and comprised the remainder of net profit for the 2020 financial year following the creation of regulatory reserves and reserves under the articles of association in the amount of EUR 4,457,225.78. Distributable profit for 2020 in the amount of EUR 4,032,728.09 shall be allocated to other profit reserves."

### **EXPLANATION OF THE PROPOSED RESOLUTION ON THE USE OF DISTRIBUTABLE PROFIT FOR 2020**

In accordance with the fifth paragraph of Article 230 of the Companies Act (Official Gazette of the Republic of Slovenia, Nos. 65/09 /\[official consolidated version]/, 33/11, 91/11, 32/12, 57/12, 44/13 /\[Constitutional Court decision]/, 82/13, 55/15, 15/17, 22/19 /\[ZPosS]/, 158/20 /\[ZIntPK-C]/ and 18/21; hereinafter: the ZGD-1) the general meeting of shareholders shall decide on the use of the distributable profit.

SID Bank generated a net profit of EUR 8,489,953.87 during the 2020 financial year. The management board created regulatory reserves in the amount of 5% of net profit equalling EUR 424,497.69 during the compilation of the 2020 annual report in accordance with the first paragraph of Article 230 in connection with the third and fourth paragraphs of Article 64 of the ZGD-1 and, in accordance with point 4 of paragraph 1 of Article 230 in connection with the seventh paragraph of Article 64 of the ZGD-1 and Article 28 of the articles of association of SID Bank, created reserves under the articles of association in the amount of 50% of net profit less the amount of created regulatory reserves, equalling EUR 4,032,728.09.

Distributable profit amounted to EUR 4,032,728.09 as at 31 December 2020 and comprised the remainder of net profit for the 2020 financial year following the creation of regulatory reserves and reserves under the articles of association in the amount of EUR 4,457,225.78.

The third paragraph of Article 4 of the Slovene Export and Development Bank Act (Official Gazette of the Republic of Slovenia, Nos. 56/08, 20/09 and 25/15 /\[ZBan-2]/ and 61/20 /\[ZDLGPE]/) stipulates that SID Bank's distributable profit may not be used for distribution to shareholders, but is instead allocated to other profit reserves.

The management board and supervisory board thus propose the allocation of distributable profit for 2020 in the amount of EUR 4,032,728.09 to other profit reserves.



# **ANNUAL INTERNAL AUDIT REPORT FOR 2020 – SID BANK**

Report recipients:

- Management board
- Audit committee and supervisory board
- General meeting
- Deloitte as the auditor of the financial statements

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## ABBREVIATIONS

IAD – internal audit department  
 ZBan – Banking Act  
 FTE (Full-time Equivalent) – the number of hours of a person who performs full-time work  
 AML/CFT – prevention of money laundering and terrorist financing  
 ZIUPOK – Emergency Deferral of Borrowers' Liabilities Act  
 ZDLGPE – Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic  
 BS – Bank of Slovenia  
 ECB – European Central Bank  
 OU – organisational unit  
 FIFFD – financial institutions and Fund of Funds department  
 PEFD – project and export financing department  
 ILAAP – Internal Liquidity Adequacy Assessment Process  
 EBA – European Banking Authority  
 RMD – risk management department  
 VPN – Virtual Private Network  
 IRRBB – management of the interest rate risk in the banking book

## 1 Introduction

Pursuant to the rules of procedure of the internal audit department of SID Bank (hereinafter: the rules of procedure of the IAD), Article 144 of the Banking Act (Official Gazette of the Republic of Slovenia, Nos. 25/15, 44/16 and 77/16; hereinafter: the ZBan-2) and the International Standards for the Professional Practice of Internal Auditing (hereinafter: the Standards), the internal audit department (hereinafter: the IAD) has drafted the annual internal audit report for 2020, which includes:

- a report on the implementation of the annual work plan;
- an assessment of the compliance of remuneration practices with the remuneration policy;
- a summary of significant findings from the audits of operations, and
- the organisational independence of the IAD.

## 2 Report on the implementation of the IAD's annual work plan

The IAD functioned in 2020 in accordance with the Standards, the Code of Internal Auditing Principles and the Code of Professional Ethics (hereinafter: the Code), and on the basis of its annual work plan for 2020, which the Bank's supervisory board approved at its 192nd regular session of 19 December 2019.

### 2.1 Implementation of planned audits

The annual work plan of the IAD envisaged 11 regular audits in 2020 in addition to the performance of other activities. In 2020, the proportion of advisory services reached 11% of the time used for auditing services. Unlike in 2019, only a small portion of the time was earmarked for the development of new products (implementation of the portfolio guarantees product), but mostly it was earmarked for the acquisition and evaluation of information relating to the right of access to individual applications, the generation of audit trails, the submission of proposals and findings regarding documents drafted for adjustments to the Covid-19 circumstances, the auditing of certain reports of control functions, the drafting and provision of information during the issue of SID bonds and for amendments to the pillar assessment survey. The informal portion of the advisory services focused on the business process methodology and risk profile, the rules on fraud risk, the definition of operational security incidents, the rules on securing investment operations, AML/CFT, and the risk management strategy and policy.

Two extraordinary audits were also conducted within the scope of the IAD's competences and tasks. Bank of Slovenia also conducted two reviews of SID Bank focused on bank loans pledged as collateral for Eurosystem operations and guarantee schemes for the deferral of credit liabilities (ZIUPOK), as well to provide additional liquidity for the economy (ZDLGPE).

The unforeseen activities, different work dynamic (from home) due to the pandemic and a longer sick leave than planned for this audit year are reflected in a significantly higher intensity of audits in the last quarter of 2020 and in the first two months of 2021.

Six audits of the IAD's annual work plan for 2019 were completed at the beginning of 2020, as presented in detail below. A total of eight regular audits, with the ninth still in progress, of all the audits planned for 2020 were carried out and completed by the time this annual internal audit report was drafted. Two planned audits were moved to the work plan for the 2021

financial year, i.e. an audit of calculators and the drafting of the pricing policy and an audit of the portfolio guarantee product.

## ***2.2 Completion of other planned activities of the IAD***

The IAD completed in full all of the following planned activities in 2020:

- the provision of formal and informal advisory services to competent managers and individual employees;
- the quarterly monitoring of the implementation of recommendations;
- the drafting of all quarterly internal audit reports, which also included findings regarding progress in the implementation of recommendations, and submitted those reports to the management board, audit committee and supervisory board;
- the drafting of the annual internal audit report for 2020, which was submitted to the management board, audit committee and supervisory board;
- the drafting of an indicative strategic plan on the functioning of the IAD for the period 2021–2022 and the IAD's annual work plan for 2021, which it submitted to the management board, audit committee and supervisory board;
- the coordination of requests received from the Bank of Slovenia in accordance with Article 241 of the ZBan-1;
- monitoring of the Bank's current operations through participation in various meetings; and
- monitoring of the work of external service providers.

## ***2.3 Implementation of the quality assurance programme***

The IAD continued with activities in 2020 aimed at ensuring the quality of internal auditing. Those activities included:

- on account of Covid-19 practically all forms of live training (conferences, seminars, workshops) were cancelled in 2020. Most training courses were held via web applications. The participation of IAD employees in twelve training programmes, seminars and conferences organised by the Slovenian Institute of Auditors, the Bank Association of Slovenia, the BS, the ECB, international consultancy firms and other internal training programmes and seminars;
- a post-audit assessment for all performed and completed audits, in accordance with the International Standards for the Professional Practice of Internal Auditing; and
- an external assessment of the quality of the work of the internal audit department was also carried out during the first quarter of 2020. The report together with findings and recommendations was presented at the 85th meeting of the audit committee of 15 June 2020;
- the Bank of Slovenia conducted an annual review with the director of the IAD in 2020.

## ***2.4 Use of resources for implementation of the annual plan***

The internal audit department had three employees in 2020, two of whom were full-time employees and one of whom was a part-time employee. One employee was on sick leave longer than planned. External auditors (experts) were used in one of the audits mentioned above.

The IAD used a portion of available time (11% of the time earmarked for auditing services or 7% of all the auditing service and activities related to auditing) for the provision of formal and informal advisory services, which resulted in a delay in the realisation of the annual plan.

Extraordinary audits (2), audits and a significant increase in the amount of required reports to the Bank of Slovenia due to Covid-19, as already explained, had a key impact on the delay.

**Table 1: Analysis of the use of planned time by the IAD in 2020**

Aktivnost	Ocena dnevi ONR	Realizacija ONR	Realizacija/plan n-ONR	Realizacija (plan ONR+zunanji)	Poraba neto časa	Poraba neto časa + zunanji
<b>A REVIZIJSKE AKTIVNOSTI</b>	<b>351</b>	<b>330</b>	<b>94%</b>	<b>94%</b>	<b>64%</b>	<b>64%</b>
A1 Redni revizijski pregledi	270	233	86%	86%	45%	45%
A2 Izredni revizijski pregledi	20	37	186%	186%	7%	7%
A3 Spremljava priporočil	26	27	103%	103%	5%	5%
A4 Svetovalna dejavnost	35	33	95%	95%	7%	7%
<b>B AKTIVNOSTI POVEZANE Z REVIDIRANJEM</b>	<b>130</b>	<b>131</b>	<b>100%</b>	<b>100%</b>	<b>26%</b>	<b>26%</b>
B1 Tekoča spremljava/ nadzor/ udeležba na odborih	32	37	117%	117%	7%	7%
B2 Načrtovanje delovanja notranje revizije	13	7	56%	56%	1%	1%
B3 Obdobno poročanje o delovanju notranje revizije	35	26	74%	74%	5%	5%
B4 Razvoj metodike revidiranja	15	7	47%	47%	1%	1%
B5 Izobraževanje in usposabljanje	21	12	55%	55%	4%	4%
B6 Sodelovanje z zunanjimi institucijami/ drugimi dajalci zagotovil	4	26	649%	649%	5%	5%
B7 Vodenje oddelka	10	16	156%	156%	3%	3%
<b>C AKTIVNOSTI, KI NISO POVEZANE Z REVIDIRANJEM</b>	<b>32</b>	<b>51</b>	<b>160%</b>	<b>160%</b>	<b>10%</b>	<b>10%</b>
C1 Administracija in ostali posli	32	51	160%	160%	10%	10%
<b>D ODSOTNOSTI IN NEEFEKTIVNI ČAS</b>	<b>144</b>	<b>158</b>	<b>109%</b>	<b>109%</b>		
D1 Prazniki	18	18	100%	100%		
D2 Dopusti	81	67	83%	83%		
D3 Boleznine	5	31	612%	612%		
D4 Neefektivni čas (malica, odmori)	40	43	106%	106%		
<b>SKUPAJ</b>	<b>657</b>	<b>670</b>	<b>102%</b>	<b>102%</b>		

Aktivnost	Activity
Ocena dnevi ONR	Estimated no. of days (IAD)
Realizacija ONR	Actual (IAD)
Realizacija/plan ONR	Actual/plan (IAD)
Realizacija /(plan ONR+zunanji)	Actual/plan (IAD + external auditors)
Poraba neto časa	Net time used
Poraba neto časa + zunanji	Net time used + external auditors
REVIZIJSKE AKTIVNOSTI	AUDITING ACTIVITIES
Redni revizijski pregledi	Regular audits
Izredni revizijski pregledi	Extraordinary audits
Spremljava priporočil	Monitoring of recommendations
Svetovalna dejavnost	Advisory activity
AKTIVNOSTI POVEZANE Z REVIDIRANJEM	AUDITING-RELATED ACTIVITIES
Tekoča spremljava/ nadzor/ udeležba na odborih	Ongoing monitoring/controls/participation in committee meetings
Načrtovanje delovanja notranje revizije	Planning of the IAD's work
Obdobno poročanje o delovanju notranje revizije	Periodic reporting on the work of the IAD
Razvoj metodike revidiranja	Development of auditing methodology
Izobraževanje in usposabljanje	Education and training
Sodelovanje z zunanjimi institucijami/ drugimi dajalci zagotovil	Cooperation with external institutions/other providers of assurance
Vodenje oddelka	Management of department
AKTIVNOSTI, KI NISO POVEZANE Z REVIDIRANJEM	NON-AUDITING ACTIVITIES
Administracija in ostali posli	Administration and other transactions
ODSOTNOSTI IN NEEFEKTIVNI ČAS	ABSENCES AND UNPRODUCTIVE TIME
Prazniki	Holidays
Dopusti	Annual leave (vacation)
Boleznine	Sick leave
Neefektivni čas (malica, odmori)	Non-productive time (meals and breaks)
SKUPAJ	TOTAL

The IAD had an average of 2.3 FTEs<sup>1</sup> in 2020 disregarding annual leave, and 2 FTEs if annual leave is taken into account. Details regarding the use of available time are presented in Table 1.

Deviations in actual days used for auditing and non-auditing activities from the number of days planned in the IAD's annual work plan for 2020 are the result of the following events:

1. in the first quarter of 2020, i.e. until mid-February, a total of six audits were performed and completed, i.e. the 'ILAAP process (03/2019)', 'Speculative real estate financing (06/2019)', 'Audit of the lending process – conclusion of transactions (8/2019)', 'Account management (13/2019)', 'Assessment of the compliance of remuneration with the remuneration policy (12/2019)' and 'Managing the development of new products (5/2019)';
2. at the beginning of the year, two extraordinary audits were conducted: 'Anonymous letter against the work of the compliance department (12/2020)' and 'Security information and event management (SIEM) IBM QRadar (13/2020)<sup>2</sup>;
3. Bank of Slovenia completed two audits in 2020, i.e. a standard review of pledged bank loans in the pool of collateral at the Bank of Slovenia, used as Eurosystem collateral, and an extraordinary review of SID Bank focused on the management of operational risks when performing the function of the guarantee scheme. Both reviews were conducted off-site (remotely, and impacted the significant increase in used time, as planned in the scope of item 'Cooperation with other institutions/ assurance providers' (a four-time increase in 2020/2019);
4. the Covid-19 pandemic also impacted the auditing dynamic and, in general, work at the Bank, requiring most of the planned audits to be carried out from home. This also led to an increase in coordination and communication with the IAD's employees;
5. the deviation in the time reserved for administration and other transactions from the planned amount is the result of work from home, correspondence with various departments, colleagues from the department, compliance with the requests of the Bank of Slovenia. The time used for administration and other transactions of 44 minutes/day (2019: 37) accounts for 10% of time earmarked for auditing activities, auditing-related activities and non-auditing activities.

A total of 64% of the net available time was used for auditing activities during the 2020 financial year (69% in the 2019 financial year). The IAD used 90% of net available time for auditing and auditing-related activities.

## **2.5 Assessment of the performance of the IAD in 2020**

The following performance criteria were included in the IAD's annual work plan for 2020:

- the use of at least 60% of net available time (after taking into account absences) for audit activities or at least 85% of net available time for auditing and auditing-related activities; and
- the performance of at least 80% of planned audits or at least 65% of planned audits, if the amount of time required for extraordinary audits performed exceeds planned audits by 25%.

We believe that the IAD performed well in 2020, as it achieved both established objectives:

- a total of 64% of the IAD's net available time was used for the performance of auditing activities (2019: 69%). A total of 90% of the IAD's net available time was used for the performance of auditing and auditing-related activities (2019: 92%); and

<sup>1</sup> Including holidays and absence due to sick leave.

<sup>2</sup> A technical review was conducted by an outside firm.



- 91% of planned audit work was completed.

### **3 Assessment of the compliance of remuneration practices with the remuneration policy**

The Bank has a remuneration policy in place that in all material respects is in line with the law. The system of internal governance, risk management and internal controls is thus assessed as appropriate. Nevertheless, specific parts of the remuneration policy must be updated in order to: eliminate deficiencies that were identified in previous audits and that relate to necessary amendments to the remuneration system in terms of setting variable remuneration for the performance of organisational units; establish balanced qualitative and quantitative criteria/weights for variable remuneration (both in the process of elimination). Since a portion of the IT support for human resources is in the process of being prepared, we recommend the drafting of a formal plan to upgrade IT support also for wages and connectivity with other segments of the HR IT system. The remuneration policy also needs to be updated in terms of the positions with a significant influence of the Bank's risk profile due to the most recent relevant changes to the Bank's organisational structure.

### **4 Summary of significant findings from audits of operations**

*The extraordinary audit of the 'Anonymous letter against the work of the compliance department' transaction* was completed on the basis of the management board's extraordinary decision connected with the anonymous report filed against the work of the department. The audit focused on the coordination procedure, the content and approval of the rules on the management of fraud risk and the methodology for the background check of employees regarding past conduct/ business background, in the scope of which these areas were assessed as deficient in the audit procedure. Due to the subsequent amendments to specific articles of internal acts and the deficient coordination in that (closing) part with other departments, a recommendation was issued for the re-examination of their content, coordination and approval. It is also expected that the IAD is informed of individual cases of potential or actual fraud and of measures adopted in that regard.

Through the regular audit of the *FIFD and the Fund of Funds* we found the internal controls and risk management system that was put in place to be appropriate. The manuals and the created graphic model of the process were properly updated, while the work procedures need to be documented. Software support was established for the reporting of financial intermediaries. We issued a recommendation in connection with raising the level of information support and automation of the financing process. In addition, needs were identified for clearer segregation of powers and responsibilities between the OUs that are responsible for the development, management and implementation of the Fund of Funds, and for reporting on its realisation. Caution was also issued during the simplification of procedures to adjust to the Covid-19 situation, in connection with which the Bank already began to establish a new Fund of Funds (FoF 2).

In accordance with the ECB's findings, *leveraged transactions* (loans to borrowers with a large amount of debt) rose sharply after the 2007–2008 financial crisis, which prompted an audit in accordance with the recommendations of the ECB and the BS. We find that this area is suitably and sufficiently regulated. Since the ECB's guidelines are not binding on the Bank, and the EBA guidelines in that regard are yet to enter into force, we did not issue any recommendations. However, opportunities were identified to improve the procedures associated with

formalisation and technical support in the drafting of credit proposals. Rectification actions are already underway.

The Bank's *credit assessment system* is solid and ensures the appropriate assessment of credit risk. The internal acts in this area (methodologies and rules) have been thoroughly updated and amended, which now comply with the regulations and EBA guidelines. Work is carried out in a professional manner, and credit rating reports are standardised, comprehensible and transparent. Validations of credit assessment systems and methodologies were completed at the beginning of 2021. The amendments required for defining powers and responsibilities in the assessment of projects and project firms have been identified. The department uses a very large amount of diverse sources of data and information for its work, and as such urges to seek potential solutions for their greater centralisation. The fulfilment of the most urgent requests for the upgrade and amendment of applications, which CAD uses in their work, is recommended in the scope of the audit. We also issued a recommendation related to the possibilities of optimising the classification of customers to watch lists that impact the department's work dynamic.

The *Recovery* audit focused on the recovery process in the monitoring department and the distressed investment management department (DIMD), but during the audit was expanded to the management of credit risk and the EWS system due to the expected impairment in the credit portfolio, and also on the basis of the Bank of Slovenia's letter sent to banks in January 2021. The following must be completed in light of the recovery process adjustment: the amendment of the roles and responsibilities of OUs in the procedures of implementing changes, restructuring and recovery, the documenting of the task of the RMD as a unit for credit risk management, the establishment of a regular flow of information between the units for the approval of investment transactions and the Distressed Investment Management Department (DIMD), and ensuring further automation and upgrade of the early warning system.

The *social engineering* review showed that the area is appropriately organised, taking into account that the systematic raising of the awareness of employees on problems in this area needs to be ensured and physical security upgraded in certain parts. Proposed improvements have been submitted for internal acts, the regular compilation of IT security reports, upgrades to protocols for the verification of the identities of helpdesk callers and upgrades to network equipment.

*The audit of the interest rate risk in the banking book (IRRBB)* covered an overview of the bases and the plan of action for the implementation of the IRRBB in accordance with the set timetable, including reports on this to the Bank of Slovenia, but not the technical section, which will be carried out by an external expert, as the implementation of the technical system and application support were not completed by the end of the audit. Through certain simplifications, the system will ensure an appropriate way to measure interest rate risk in the banking book. In addition to timely implementation, the achievement of the required level of complexity in measuring interest rate risk also due to the use of heterogeneous IT tools is recognised as the highest risk. The need to define independent reviews and reverse testing and update of the interest rate policy is emphasised alongside model validations.

*The audit of the project and export financing department (PEFD)* shows that the department's risk management and internal control system is appropriate. Only the final formalisation of

certain procedures and the documenting of the instructions for the implementation of work procedures that are in their final phase are required (especially the part when the department is not yet involved in the financing process). These must clearly set out the segregation of powers and responsibilities between organisational units involved in the work procedures of the PEFD, especially the role of the RMD, as they generally relate to higher-value transactions with a significant impact on credit and income risk, and other aspects.

On the basis of a special report on the *review of the security information and event management system (SIEM)– IBM QRadar* by an external expert, the IAD issued a report on the extraordinary audit. The aim of the audit was to summarise the findings regarding the current realistic capacities of the SIEM system for the timely identification of unauthorised incidents in the Bank's integrated system and the formation of synthesised recommendations together with its own findings. The following recommendations were issued in connection with the audit: further segmentation of the computer network into security zones, raising the standard of physical security in the building/offices and for access to IT infrastructure, raising the awareness of users regarding information security, the amendment and introduction of security policies, establishment of encrypted communications (by applying the highest security protocols, e.g. TLS 1.3), use of secure phones for management staff and two-factor authentication for remote VPN connections. In the scope of this audit, the IAD is also expected to complete an extraordinary review of the implementation of the SIEM system and provision of audit trails in the scope of access to the DB2 database by the end of March.

## 5 Organisational independence

### 5.1 Requirements of the Standards

**Standard 1110 – Organisational independence** states that the chief audit executive must report to the level of management within the organisation that facilitates the completion of internal audit tasks, and must confirm to the supervisory board the organisational independence of the internal audit function at least once a year.

*Organisational independence is effectively ensured if the chief audit executive is functionally accountable and reports to the supervisory body. Cases of functional accountability to the supervisory body occur whenever the latter:*

- approves the internal audit charter;
- approves the risk-based work plan of the IAD;
- approves the budget and planned resources for internal auditing;
- receives reports from the chief audit executive on the work of the internal audit function in connection with the work plan and other matters;
- approves decisions relating to the appointment and recall of the head of the IAD; and
- approves the remuneration of the head of the IAD.

**Standard 1100 – Independence and objectivity** requires the independence of the internal audit function and the objectivity of internal auditors in the performance of their work.

*Independence is the freedom from conditions that threaten the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner. The chief audit executive thus has direct and unrestricted access to management and supervisory bodies.*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no compromises regarding quality are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.*

*Independence and objectivity must be managed at the level of an individual auditor, accepted engagement, and functional/contextual and organisational responsibility.*

**Standard 1120 – Individual objectivity** requires internal auditors to have an impartial and unbiased attitude, and avoid conflicts of interest.

*A conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest that can make it difficult to fulfil their duties impartially. A conflict of interest exists even if no unethical or improper act results.*

**Standard 1130 – Impairment to independence and objectivity.** If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to the appropriate parties. The nature of disclosure depends on the impairment.

*The impairment of organisational independence and individual objectivity may include, but is not limited to, a personal conflict of interest, scope limitations, restrictions on access to records, personnel, premises and equipment, and limitations on resources, such as funding.*

## **5.2 Fulfilment of the requirements of the Standards**

The bases for organisational independence are the organisational positioning and structure of the IAD, as required by Article 141 of the ZBan-2, i.e. as an independent department that reports directly to the bank's management board, and that is functionally and organisationally segregated from the bank's other organisational units. The IAD is directly subordinated to the bank's management board. Organisational independence is also conditional on allocated access rights in application support, and access to registers, employees and records.

In accordance with the rules of procedure of the IAD and Article 144 of the ZBan-2, the IAD submitted its strategic and annual work plan, the annual internal audit report for 2019 and quarterly internal audit reports to the Bank's management board, and then to the audit committee and supervisory board in 2020. The IAD thus met requirements regarding its functional responsibility to the supervisory body.

All IAD employees signed a statement confirming their individual objectivity and independence for 2020, and confirming the absence of conflicts of interest amongst IAD employees in the performance of auditing and auditing-related activities.

Ljubljana, 19 February 2021

## **OPINION OF THE SUPERVISORY BOARD OF SID BANK REGARDING THE ANNUAL INTERNAL AUDIT REPORT FOR 2020**

Pursuant to the International Standards for the Professional Practice of Internal Auditing and Article 144 of the Banking Act (Official Gazette of the Republic of Slovenia Nos. 25/15, 44/16 and 77/16; hereinafter: the ZBan-2), the internal audit department of SID Bank issued the annual internal audit report for 2020 and submitted it to the Bank's management board, audit committee and supervisory board for discussion.

In accordance with the requirement of Article 48 of the ZBan-2, the Bank's supervisory board has drawn up an opinion regarding the annual internal audit report, while the Bank's management board will include the internal audit report with the supervisory board's opinion on the agenda of the general meeting in accordance with Article 144 of the ZBan-2.

The supervisory board regularly monitored the work of SID Bank's internal audit department in 2019. The supervisory board and audit committee supervised the work of the internal audit function by discussing the annual internal audit report and quarterly reports on the work of the internal audit department in 2020, when they also dedicated attention to progress in the implementation of the aforementioned department's recommendations. The organisational positioning of the internal audit department and the powers entrusted to it by existing bylaws governing the work of that department facilitate independent auditing, unfettered access to all of the Bank's premises, employees, information and data, and the performance of auditing tasks at the internal audit department's initiative. The audit committee and supervisory board also supervised the appropriateness of procedures and the effectiveness of internal auditing by assessing and giving its consent to the strategic work plan of the internal audit department for the period 2021–2022, and the work plan of the internal audit department for 2021.

The supervisory board and audit committee also supervised the staffing of the internal audit department in 2020. In addition to ordinary audits, the internal audit department also performed extraordinary audits and provided formal and informal advisory services. The internal audit department fulfilled the majority of its annual work plan; two planned audits were brought forward to the annual work plan for 2021 due to extraordinary audits and audits by Banka Slovenije.

The audit committee discussed SID Bank's annual internal audit report for 2020 at its 91st session held on 4 March 2021.

The supervisory board was briefed on SID Bank's annual internal audit report for 2020 at its 211th session held on 8 March 2020 and issued a positive opinion regarding that report.

mag. Marjan Divjak  
Chair of the supervisory board

## 2.6

### **BRIEFING ON INFORMATION REGARDING THE REMUNERATION POLICY, THE RULES ON THE CONCLUSION OF EMPLOYMENT CONTRACTS WITH MEMBERS OF THE MANAGEMENT BOARD AND THE PAYMENT OF REMUNERATION TO MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD**

#### ***Ad 2.6 Proposed resolution for item 2.6 on the agenda of the 33rd general meeting of SID banka, d.d., Ljubljana (hereinafter: SID Bank)***

Based on the proposal of the management board and supervisory board, the company's general meeting hereby adopts the following resolution:

"The general meeting of SID Bank is hereby briefed on the remuneration of members of the management board and supervisory board in 2020, and on the amendments to the management board's remuneration policy and the rules on the conclusion of employment contracts with members of the management board."

### **EXPLANATION OF THE PROPOSED RESOLUTION REGARDING THE REMUNERATION POLICY, THE RULES ON THE CONCLUSION OF EMPLOYMENT CONTRACTS WITH MEMBERS OF THE MANAGEMENT BOARD AND THE PAYMENT OF REMUNERATION TO MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD**

In accordance with point 2.11 'Disclosure of the policy on the remuneration of members of the supervisory and management bodies of companies under the management of SDH, or of the amendments thereto' published in the Bases of Slovenski državni holding, d.d. for voting at the general meetings of companies in 2021 of 10 March 2021 (hereinafter: the Bases), information regarding the remuneration of members of SID Bank's management board and supervisory board is disclosed below. In cases where the information required by the Bases is already disclosed in the 2020 annual report (hereinafter: the 2020 AR), the page, section or point in the 2020 AR to which the information relates is indicated in the table. The valid remuneration policy and the rules on the conclusion of employment contracts with members of the management board (hereinafter: rules) were already disclosed to the general meeting in 2020. However, both documents have again been enclosed due to changes to both documents in 2021.

Enclosed:

- Information regarding the remuneration of members of the management board and supervisory board with respect to the Bases of Slovenski državni holding, d.d. for voting at the general meetings of companies in 2021 of 10 March 2021

## Information regarding the remuneration of members of the management board and supervisory board with respect to the Bases of Slovenski državni holding, d.d. for voting at the general meetings of companies in 2021 of 10 March 2021

In accordance with point 2.11 'Disclosure of the policy on the remuneration of members of the supervisory and management bodies of companies under the management of SSH, or of the amendments thereto' published in the Bases of Slovenski državni holding, d.d. for voting at the general meetings of companies in 2021 of 10 March 2021 (hereinafter: the Bases), information regarding the remuneration of members of SID Bank's management board and supervisory board is disclosed below. In cases where the information required by the Bases is already disclosed in the 2020 annual report (hereinafter: the 2020 AR), the page, section or point in the 2020 AR to which the information relates is indicated in the table. The valid remuneration policy and the rules on the conclusion of employment contracts with members of the management board (hereinafter: Rules) were already disclosed to the general meeting in 2020. However, both documents have again been enclosed due to changes to both documents in 2021.

### I. Information regarding remuneration in accordance with Appendix 6 to the Corporate governance code for companies with capital assets of the state

## REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD DURING THE 2020 FINANCIAL YEAR

### Composition and remuneration of members of the management board during the 2020 financial year

First name and surname	Function (president, member)	Fixed remuneration – gross (1)*	Variable remuneration – gross			Deferred remuneration (3)	Severance pay (4)	Fringe benefits (5)	Repayment of previously paid bonuses – clawback (6)	Total gross (1+2+3+4+5-6)
			based on quantitative criteria	based on qualitative criteria	Total (2)**					
Sibil Svilan, MSc	President of the management board	246,788			0	0	0	6,615	0	253,403
Goran Katušin	Member of the management board	211,130			0	0	0	748	0	211,878

\* In the disclosure of remuneration in the annual report, fringe benefits are included in fixed remuneration.

\*\* An explanation of the setting of variable remuneration is given in point 5 of the table, which is an integral part of the materials for the general meeting.

# Composition and remuneration of members of the supervisory board and its committees during the 2020 financial year

First name and surname	Function (chair, deputy-chair, member, external committee member)	Gross annual wages for performance of function (1)	Gross annual attendance fees for Supervisory Board and committee meetings (2)	Gross total (1+2)	in EUR	
					Travel costs	
Marjan Divjak, MSc	Chair of the supervisory board Member of the risk committee Member of the nomination and remuneration committee	23,021	9,248	32,269		0
Janez Tomšič	Deputy-chair of the supervisory board Deputy-chair of nomination and remuneration committee	6,129	3,696	9,825		0
Zlatko Vili Hohnjec	Member of the supervisory board Deputy-chair of the audit committee Member of the nomination and remuneration committee	21,995	9,093	31,088		1,064
Leo Knez, MSc	Member of the supervisory board Chair of the audit committee, deputy-chair of the risk committee	22,547	8,632	31,179		0
Dr Igor Masten	Member of the supervisory board Chair of the risk committee	6,240	3,300	9,540		0
Dr Sašo Polanec	Member of the supervisory board	6,240	3,696	9,936		0



	Chair of the nomination and remuneration committee					
Marko Tišma	Member of the supervisory board	22,033	8,524	30,557	1,355	
	Member of the audit committee					
	Member of the risk committee					
Monika Pintar Mesarič	Chair of the supervisory board until 10 Sep 2020	17,422	3,481	20,903	0	
	Chair of the nomination and remuneration committee					
Anton Rop, MSc	Member of supervisory board until 16 Jun 2020	5,436	2,725	8,161	0	
	(Member of the risk committee)					

**II. Information regarding the remuneration of members of the management board and supervisory board with respect to point 2.11 of the Bases**

Seq. No.	Requirement	Disclosure
1.	Maximum permitted amount of the basic (fixed) wage and criteria/reasons for setting the basic (fixed) wage in management contracts	<p>No changes to the regulation since reporting at the general meeting last year.</p> <p>The maximum permitted amount of the basic (fixed) wage is set out in the enclosed rules on the conclusion of employment contracts with members of the management board, the ZPPOGD and Article 2 of the relevant Slovenian government decree. A contract sets a basic wage in the amount of five times the average gross wage paid by group companies or an individual company, which amounted to EUR 20,058.40 in 2020.</p> <p>In accordance with the ZGD, all banks are deemed large enterprises. At the time the rules were adopted (for the first time in 2010), SID Bank ranked fourth in terms of total assets amongst banks registered in Slovenia.</p>
2.	<p>Highest permitted amount of variable remuneration and the system of criteria for setting variable remuneration, i.e. common criteria for all members and individual criteria for a specific member of the governing body, and criteria by category:</p> <ul style="list-style-type: none"> <li>- quantitative criteria that are defined using various economic and financial indicators (e.g. return-on-equity (ROE), EBITDA margin and net debt/EBITDA); and</li> <li>- qualitative criteria that define business objectives (e.g. successful acquisitions, reorganisation, upgrading of IT and increase in market share).</li> </ul> <p>and</p>	<p>Regarding the arrangement of variable income, the Bank amended the Rules in 2021 in accordance with the recommendations of the internal audit function, and taking into account the European Banking Authority (EBA) guidelines.</p> <p>The provisions of ZPPOGD also apply to the performance criteria (based on which variable remuneration is determined) for members of SID Bank's management board. The variable remuneration, which may not exceed 30% of the base salary of any member of the management board, is determined by the supervisory board at the proposal of the nomination and remuneration committee, following the approval of SID Bank's annual report. To that end, the supervisory board takes account of the fulfilment of the annual operational plan (AOP) of SID Bank and other performance criteria. The fulfilment of the AOP provides a basis for the payment of the entire variable remuneration, while in the event of (a) partial fulfilment of the AOP or (b) if certain objectives have been exceeded and others have not been met, the supervisory board takes a decision on the amount of the variable remuneration by taking into account the criterion concerning the fulfilment of objectives/tasks in comparison with all tasks, as well as quantitative and qualitative criteria set out in the AOP and their weight in accordance with the provisions of the articles of association and the adopted strategy defining the purpose and mission of the company and other circumstances in which the company operated in the previous year.</p>

<p>explanation regarding the system governing the relationship (weights) between individual categories of criteria and other conditions for meeting criteria for the right to the payment of variable remuneration, the payment method (deferred payments), clawback arrangements, the possible discretionary right of the supervisory body in the vesting of rights (the supervisory board's right to decide that a member of the governing body is not entitled to variable remuneration, or is entitled to a lower or higher amount than the amount deriving from the overall performance assessment, regardless of the latter), and any other relevant elements of the policy for setting variable remuneration.</p>	<p>Quantitative and qualitative criteria are defined in the Bank's valid strategy and annual operational plan. Specifically, 23 indicators of strategic activity and 24 indicators of strategic results were defined for 2020.</p> <p>Variable remuneration in the amount of 25% of the basic wage was vested in 2020 (maximum 30% of the basic wage). When defining that amount, the supervisory board took into account that the percentage of the realisation of all the strategic activities and indicators was 82.6%.</p> <p>The amendments to the Rules that were adopted in 2021, in terms of the variable remuneration now set out that three strategic objectives and five financial indicators, which have been defined by the SSH in their documents and approved by the government of the RS over the last few years are taken into account for half of the maximum possible payment depending on performance, as follows:</p> <ul style="list-style-type: none"> <li>- Appropriate scope of activities (balance of financing transactions)</li> <li>- Incentive effect of interest rates of financial engineering funds and direct financing of the fund of funds</li> <li>- Countercyclical stance of the growth in loans according to the output gap</li> <li>- ROE</li> <li>- CIR</li> <li>- Proportion of total loans accounted for by NPLs</li> <li>- Interest margin</li> <li>- Capital adequacy</li> </ul> <p>The appendix to the Rules sets out the criteria and their weights, while the measures are defined annually in the annual operational plan. The supervisory board's nomination and remuneration committee has the possibility to also set out annually other objectives and indicators or replace the existing objectives with new ones, as required.</p> <p>The payment of the variable portion of remuneration (deferral period) and repayment of funds are set out in the enclosed remuneration policy. No changes were made in this area since reporting to the general meeting in the previous year.</p>
<p>3. Quality criteria for the development of the company's social responsibility should be defined separately.</p>	<p>Various elements of social responsibility or such conduct are reflected in different documents and the everyday operations of SID Bank. The core document that defines the operation of the Bank in this area is SID Bank's social responsibility policy, which has been in force since 2011. The</p>

		social responsibility content is also covered by each AOP. Content relating to the pursuit of social responsibility at SID Bank can be found every year in a separate report that is an integral part of the Bank's annual report.
4.	Other types of potential bonuses and the maximum permitted amount thereof.	The management board is not entitled to any other type of bonuses.
5.	Definition of the maximum amount and conditions for the payment of severance pay, and information about the severance pay agreed in the contract	Set out in the enclosed rules on the conclusion of employment contracts with members of the management board in a maximum amount of six basic monthly wages.
6.	Other rights and benefits under point 9.5 of the Recommendations and Expectations of Slovenian Sovereign Holding	Set out in the enclosed rules on the conclusion of employment contracts with members of the management board, which were amended in 2021 on the basis of the Recommendations and Expectations of Slovenian Sovereign Holding. The content, scope and limit values (thresholds) as provided in point 9.5 of the Recommendations and Expectations of Slovenian Sovereign Holding are taken into account.
7.	In connection with the previous indent and in the event of companies bound by the ZPPOGD, the general meeting is briefed on the rules regarding the vesting of other contractual rights in accordance with Article 6 of the aforementioned act. According to those rules, the aforementioned rights are defined in a contract and must take into account the size, activities, extent of operations and financial position of a company, where compliance with those criteria should be explained separately. Rules on the definition of other rights may take the form of a separate bylaw of the supervisory board or be a part of the remuneration policy for members of governing bodies.	The enclosed amendments to rules on the conclusion of employment contracts with members of the management board presented for briefing of the general meeting in accordance with Article 6 of the ZPPOGD.
8.	Arrangement of payments to members of governing bodies who perform the function of member of the supervisory board or other tasks at a subsidiary (whether payment is included in	Members of the governing body and other employees who perform the function of member of the supervisory board or other tasks at a subsidiary never have and do not currently receive supplemental payments. This is also set out in the governance policy of SID Bank.

	the basic wage of a member of the governing body or is deemed a supplemental payment).	
9.	Explanation of how compliance with the above-described policy on the remuneration of members of governing bodies and with the policy on the conclusion of contracts with members of governing bodies is ensured and taken into account in the setting of remuneration, so that total remuneration is proportionate to the tasks of members of the governing body and the company's financial position, with the aim of promoting the long-term sustainable operations of the company and ensuring remuneration is in line with achieved results.	Described in the previous points of this report, and in the enclosures.

### III. Information regarding the remuneration of members of the management board and supervisory board with respect to point 2.12 of the Bases<sup>1</sup>

Seq. No.	Requirement	Disclosure
1.	Data regarding the average gross wage paid by group companies <sup>2</sup> or an individual company if there is no group <sup>3</sup> during the previous financial year, i.e. for the year prior to the year for which the remuneration of governing bodies is presented.	EUR 4,011.68

<sup>1</sup> Supplemental information not already covered by point II.

<sup>2</sup> The average gross wage within a group is calculated by dividing the sum of all gross wage costs of group companies (the item 'wages and salaries' from the income statement less the wages and salaries of companies not registered in the Republic of Slovenia) by the number of months of the group's operations, and by further dividing the amount obtained as such by the total average number of employees based on hours worked at all group companies.

<sup>3</sup> The average gross wage at a company is calculated by dividing the sum of all gross wage costs at that company (the item 'wages and salaries' from the income statement) by the number of months of the company's operations, and by further dividing the amount obtained as such by the total average number of employees based on hours worked at the company.

2.	Gross amount of the vested right to variable remuneration for the previous financial year. <sup>4</sup>	<p>The information is disclosed in the 2020 AR in the section Remuneration of members of the management board in 2020.</p>																																				
3.	<p>Other rights from the contract (for the previous year) agreed in the contract, in the sense of Recommendation No. 9 from the valid Recommendations and Expectations of the SSH, broken down by individual right (generally, this is a presentation of the type of right and the maximum permitted amount or values under the contract)</p> <p>and</p> <p>other rights actually used (for the previous year), in the sense of Recommendation No. 9 from the valid Recommendations and Expectations of the SSH, broken down by individual right</p>	<p>Maximum rights derive from the enclosed rules on the conclusion of employment contracts with members of the management board, which were aligned in 2021 with the Recommendations and Expectations of SSH (Section 9).</p> <p>The information on other rights actually used is disclosed in the 2020 AR in the section Remuneration of members of the management board in 2020, while additional details are presented in the table below:</p> <table> <tr> <th></th><th colspan="2">in EUR</th></tr> <tr> <th></th><th>President of the management board</th><th>Member of the management board</th></tr> <tr> <td>Annual leave allowance</td><td>1,898</td><td>1,898</td></tr> <tr> <td>Fringe benefits</td><td>6,615</td><td>748</td></tr> <tr> <td>  use of company car</td><td>1,117</td><td>0</td></tr> <tr> <td>  life insurance</td><td>4,251</td><td>0</td></tr> <tr> <td>  voluntary health insurance</td><td>415</td><td>415</td></tr> <tr> <td>  liability insurance</td><td>163</td><td>163</td></tr> <tr> <td>  accident insurance</td><td>189</td><td>170</td></tr> <tr> <td>  membership fees</td><td>480</td><td>0</td></tr> <tr> <td>Voluntary supplementary pension insurance</td><td>2,819</td><td>2,819</td></tr> <tr> <td>Preventive medical examinations</td><td>446</td><td>0</td></tr> </table>		in EUR			President of the management board	Member of the management board	Annual leave allowance	1,898	1,898	Fringe benefits	6,615	748	use of company car	1,117	0	life insurance	4,251	0	voluntary health insurance	415	415	liability insurance	163	163	accident insurance	189	170	membership fees	480	0	Voluntary supplementary pension insurance	2,819	2,819	Preventive medical examinations	446	0
	in EUR																																					
	President of the management board	Member of the management board																																				
Annual leave allowance	1,898	1,898																																				
Fringe benefits	6,615	748																																				
use of company car	1,117	0																																				
life insurance	4,251	0																																				
voluntary health insurance	415	415																																				
liability insurance	163	163																																				
accident insurance	189	170																																				
membership fees	480	0																																				
Voluntary supplementary pension insurance	2,819	2,819																																				
Preventive medical examinations	446	0																																				

<sup>4</sup>Appendix 6 to the Code presents actual payments of variable remuneration for a given year.

		Memberships fees	480	0
		Managers' Association of Slovenia	320	0
		SDA	160	0
		Use of company payment card (travel and entertainment costs)	371	137
		Company vehicle	Volvo XC60 D3 AWD 2010 Residual value: 0	/

3.

## **AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF SID BANK**

***Ad 3 Proposed resolution for item 3 on the agenda of the 33rd general meeting of SID banka, d.d., Ljubljana (hereinafter: SID Bank)***

Based on the proposal of the management board and supervisory board, the company's general meeting hereby adopts the following resolution:

»The General Meeting adopts proposed amendments of the Articles of Association of SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana.«

### **EXPLANATION OF THE PROPOSED RESOLUTION ON THE AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

The Articles of Association of SID Bank must be supplemented with provisions regarding the possibility of conducting an electronic general meeting. The amendment summarizes the proposal as formulated by the Slovenian Sovereign Holding (SSH Starting points for voting at general meetings of companies in 2021, as of 10 March 2021).

The Companies Act (hereinafter: ZGD-1), which has been in force until now, enables shareholders to attend the General Meeting or vote before or at the General Meeting of Shareholders by electronic means without physical presence, but this is only possible if such a possibility is determined by the statute of the joint stock company.

The basic normative starting point and basis for the use of electronic means, which enable the participation of shareholders at the General Meeting or their voting before or at the General Meeting itself, by means of electronic means without physical presence, derives from Article 297 of ZGD-1. In order to hold an electronic general meeting of shareholders, ie in electronic form without the physical presence of shareholders, the execution of the general meeting in electronic form must be provided for in the company's articles of association. The main issue, which is also raised by ZGD-1, relates to the identification of shareholders and the issue of secure electronic communication. The law stipulates that participation and voting at the general meeting may depend only on the requirements and restrictions necessary for establishing the identity of shareholders and secure electronic communication, and only to the extent proportional to the achievement of this goal (ie identification, secure electronic communication). In order to assess the suitability of the electronic means used, it is also necessary to take into account that a record in notarial form is drawn up in connection with the General Meeting (Article 304 of ZGD-1), which conditions a higher level of formalities in the General Meeting.

The articles of association of a public limited company must thus explicitly provide for the possibility of holding an electronic general meeting and determine the procedure for participation and voting by electronic means. If the articles of association of a joint stock company do not contain such provisions, the electronic general meeting may not be held in accordance with the currently applicable regulations. This is an obstacle in the current situation, as only a small number of public limited companies in Slovenia have the option specified in the Articles of Association, but in practice electronic general meetings have not been held so far.

The need to conduct remote assemblies without physical presence using electronic means arose in 2020 as a result of safety requirements and restrictions on curbing the spread of SARS-CoV-2 (COVID-19). During an epidemic, when social distancing measures apply, the electronic assembly or virtual assembly



may be convened by the company's management directly on the basis of the provisions of the ZIUOPDVE with the consent of the supervisory body. In the ZIUOPDVE, the legislator severely limited the use of the provisions relating to electronic or virtual assemblies, namely only to assemblies convened during the second wave of the COVID-19 epidemic.

Electronic shareholders' meetings are already a reality and, without a doubt, an inevitable future. As in other areas, digitalization, and more recently the COVID-19 epidemic, has given traditional corporate law institutes a new impetus and a new dimension. Return to a safe and predictable environment of the physical world is not expected in the near future, so it is responsible for the statute to provide for the possibility of holding the general meeting in electronic form and thus enable the exercise of shareholder rights to adapt to the digital world.

## **Article 12**

**Article 12 shall be amended to read as follows:**

### **Time and location of general meeting**

#### **Article 12 (twelve)**

The general meeting sits at least once a year, after the end of the financial year, at the Bank's headquarters, at the registered office of the sole shareholder, or at a place or in the premises designated by the sole shareholder. The exact time and date of the general meeting are determined when it is convened.

With the supervisory board's consent, the management board may state in the convening of the general meeting of shareholders that the sole shareholder may participate in and cast votes at the general meeting of shareholders by electronic means, without being physically present (electronic general meeting of shareholders). The members of management or supervisory bodies may participate in the general meeting of shareholders via the transmission of picture and sound, if the general meeting of shareholders in question is held electronically in accordance with the fourth paragraph of Article 297 of the ZGD-1.

The following rules shall be observed in the event of an electronic general meeting of shareholders:---

- the technical solution shall ensure the real-time transmission of picture and sound of the entire general meeting of shareholders;-----
- the bank shall ensure conditions and a method to verify the identity of the sole shareholder or its proxy in a proportionate manner with the aim of holding an electronic general meeting of shareholders that will make it possible for the shareholder to exercise their voting rights in a secure way;-----
- the technical solution shall be such that it allows the sole shareholder to vote on proposed resolutions, submit counter proposals (including procedural proposals) and submit statements of intent to contest resolutions in real time; and-----
- the technical solution shall allow the sole shareholder to pose questions and participate in discussions in real time. In the rules of procedure set out in the fourth paragraph of this article of the articles of association, the management board may make the exercising of rights set out in this indent conditional on a shareholder or its proxy announcing their intention to exercise those rights at least one (1) day prior to the general meeting of shareholders to the Bank; and-----
- the technical solution shall ensure secure electronic communication.-----

-----The management board shall be authorised to define detailed rules of procedure for participating in and voting at an electronic general meeting of shareholders, as well as other aspects of holding such a meeting, and shall publish those rules on the Bank's website and/or in the publication of the convening of the general meeting of shareholders.-----  
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