

ADOPTION OF THE RESOLUTION ON THE USE OF DISTRIBUTABLE PROFIT FOR 2024

Ad 2.2 Proposed resolution for item 2.2 on the agenda of the 38th 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 distributable profit amounted to EUR 4,287,781.80 as at 31 December 2024, and comprised the remainder of net profit for the 2024 financial year after allocation of regulatory reserves and reserves under the articles of association in the amount of EUR 4,739,127.26. The distributable profit for 2024 in the amount of EUR 4,287,781.80 is allocated to other profit reserves."

EXPLANATION OF THE PROPOSED RESOLUTION ON THE USE OF DISTRIBUTABLE PROFIT FOR 2024

Following 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), 18/21 and 18/23-ZDU-10; 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 9,026,909.06 during the 2024 financial year. The management board created regulatory reserves in the amount of 5% of net profit equalling EUR 451,345.45 during the compilation of the 2024 annual report following the first paragraph of Article 230 in connection with the third and fourth paragraphs of Article 64 of the ZGD-1 and, following 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 4,287,781.80.

Distributable profit amounted to EUR 4,287,781.80 as of 31 December 2024 and represents the remainder of net profit for the 2024 financial year following the creation of regulatory reserves and reserves under the articles of association in the amount of EUR 4,739,127.25.

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 2024 in the amount of EUR 4,287,781.80 to other profit reserves.

ANNUAL INTERNAL AUDIT REPORT FOR 2024, SID BANK

Report recipients:

- Management Board
- Audit committee and Supervisory Board
- General meeting
- Auditor of financial statements (E&Y)

Miha Selan
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ABBREVIATIONS

AP	annual plan
FTE	full-time equivalent (hours of person who works full time)
DPO	data protection officer
HR	human resources
ICAAP	internal capital adequacy assessment process
IT	information technology
BSI	Banka Slovenije
ECB	European Central Bank
IFRS	International Financial Reporting Standards
DORA	Digital Operational Resilience Act
BCP	business continuity plan
EBA	European Banking Authority
ICT	information and communication technologies
SDH	Slovenski državni holding (Slovenian Sovereign Holding)
SB	Supervisory Board
GDPR	General Data Protection Regulation
IIA	Institute of Internal Auditors
	Slovene Export and Development Bank Act
ZSIRB	
IAD	internal audit department
IAD	internal audit department
IIA	Institute of Internal Auditors
PD	personal data
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
RPA	record of processing activities
SWIFT	Society for Worldwide Interbank Financial Telecommunications
OU	organisational unit
ZBan	Banking Act
ZSIRB	Slovene Export and Development Bank Act

Introduction

Pursuant to the Charter on the functioning of the internal audit department of SID Bank (hereinafter: the IAD charter; the IAD rulebook was in force until 31 December 2024), Article 164 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 92/21 of 8 June 2021; hereinafter: the ZBan-3), the International Standards for the Professional Practice of Internal Auditing (hereinafter: the old standards) and the Global Internal Audit Standards (hereinafter: the new standards), the internal audit department (hereinafter: the IAD) has drawn up this annual internal audit report for 2024, which encompasses:

- 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 audits of operations; and
- details of the organisational independence of the IAD.

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

The IAD operated in 2024 in accordance with the old 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 2024, which the Bank's Supervisory Board approved at its 250th ordinary meeting of 20 December 2023.

Implementation of scheduled audits

Audits scheduled in the annual plan for 2024 and the annual plan for 2023 were conducted and completed during the available time in 2024. The statuses of various audits are outlined below.

The annual work plan of the IAD scheduled ten ordinary audits in 2024, in addition to other activities. The *Management of loan funds (3/2023)* audit, which was part of the IAD's annual plan for 2023 but could not be transferred to the annual plan for 2024, was also conducted in full.

The table below discloses the statuses of the audits scheduled in the annual plan for 2024:

	Title of audit	Status
ANNUAL PLAN FOR 2024		
1	Ensuring personal data protection (GDPR) (1/2024)	completed (outsourced to IZOR)
2	Outsourcing audit (2/2024)	completed (outsourced to Forvis Mazars IT)
3	Follow-up of purpose-specific use of credit operations (PS) (3/2024)	completed
4	Audit of management of access rights (4/2024)	completed
5	Market risks (treasury operations) (5/2024)	completed
6	Processing of suspected breaches and whistleblower protection (6/2024)	completed
7	Operations under government authorisation (7/2024)	completed
8	Credit protection system in the approval and monitoring of credit operations (8/2024)	completed
9	Business continuity plan (9/2024)	completed
10	Compliance of remuneration with remuneration policy (10/2024)	completed
ANNUAL PLAN FOR 2023		
11	Management of loan funds (3/2023)	completed

Audits that were scheduled as part of the annual plan for 2023 were also completed in January and February 2024. The status of these is outlined in the table below.

	Title of audit	Status
1	ICAAP (2/2023)	completed
2	HR management and development (6/2023)	completed
3	IT security (7/2023)	completed
4	Cyber security: PEN test (5/2023)	completed (outsourced to SRC d.o.o.)
5	Compliance of remuneration with remuneration policy (9/2023)	completed

The auditing activities carried out by the IAD in 2024 also included advisory engagements, which accounted for 8% of its total activity, significantly less than in the previous year. Its advisory engagements encompassed formal advice in the area of the credit process with regard to the drafting of credit agreements and the roles of individual OUs in this process, the preparation of an opinion with regard to the deposit facility in the area of treasury operations, a review of the Methodology for assessing exposure to compliance risk, a review of the draft Rulebook on the implementation of the internal capital adequacy assessment process and the internal liquidity adequacy assessment process from the perspective of audit recommendations issued before their update, participation in a review of the SWIFT system, and a follow-up of the status of audit recommendations.

Completion of other scheduled activities of the IAD

The IAD realised all of the following activities scheduled for 2024:

- providing formal and informal advisory services for line managers and individual employees in line with their requests/resolutions;
- conducting quarterly follow-up of recommendations;
- drafting all quarterly internal audit reports, including findings from the follow-up of recommendations, and submitting them to the Management Board, audit committee and Supervisory Board;
- drafting the annual internal audit report for 2024, and submitting it to the Management Board, audit committee and Supervisory Board;
- drafting a broad strategic plan for the work of the IAD for 2025 and 2026, and the IAD's annual work plan for 2025, and submitting them to the Management Board, audit committee and Supervisory Board;
- coordinating requests submitted by Banka Slovenije in accordance with Article 271 of the ZBan-3;
- actively coordinating and participating in three Banka Slovenije inspections in 2024;
- drafting the updated charter on the functioning of the internal audit department in line with the new standards, which was approved by the SB at its 258th meeting of 18 December 2024;
- monitoring the Bank's current performance, primarily via access to materials for its management bodies and committees.

Implementation of the quality assurance programme

The IAD carried out activities in 2024 aimed at ensuring the quality of internal auditing. Those activities included:

- the participation of IAD employees in various training programmes, seminars and conferences organised by IIA Slovenia, the Slovenian Institute of Auditors, the Bank Association of Slovenia, SDH, Banka Slovenije, the ECB, and international consultancy firms;
- a post-audit evaluation for all conducted and completed audits, in accordance with the International Standards for the Professional Practice of Internal Auditing;
- an annual interview with the director of the IAD conducted by Banka Slovenije.

Having regard for the applicable standards, its mission, and newly arising trends and issues that might affect the Bank, through its actions in previous years and through its well-considered and proactive findings, particularly in the areas of credit risk management, IT project management, the development of new products, the organisation and definition of powers and responsibilities, and the laying of the foundations of the AML/CFT system, the risk management system, the remuneration system, the change

management system, and other systems and processes, the IAD has generated significant value-added for the Bank.

The department also made significant contributions in 2024 in defining the fundamental precepts for putting in place a system for managing personal data, the requisite upgrades to the outsourcing management system, and enhancements of the system for processing suspected breaches and protecting whistleblowers.

Use of resources for implementation of the annual plan

The IAD implemented its annual plan for 2024 within the framework of the approved financial plan for its work in 2024. The *Ensuring personal data protection (GDPR) (2/2024)* audit was outsourced to IZOR as planned, while the *Outsourcing audit (2/2024)* was itself outsourced, to Mazars IT d.o.o. in this case.

The internal audit department had four employees in 2024, three of whom were full-time employees and one of whom was working half-time (four hours). The IAD had an average of 3.3 FTEs¹ in 2024 excluding annual leave, and 3 FTEs if annual leave is taken into account. Details in connection with the use of available time are presented in Table 1.

All the employees at the IAD hold professional licences in external auditing, internal auditing and auditing of information systems, and in 2024 attended conferences, seminars and other forms of external and in-house training within the boundaries set by the department financial plan.

Last year was slightly less demanding in terms of time from the perspective of the number of Banka Slovenije inspections completed. The regulator conducted inspections at the Bank in the area of the ICAAP, in the area of credit risk with a focus on calculating expected credit losses in accordance with IFRS 9, and in connection with bank loans pledged as collateral for Eurosystem operations.

The IAD also used much of its human and time resources and activity on conducting complex audits in connection with data protection and outsourcing, which required procedures to be implemented in line with the Public Procurement Act. Major deviations from the plan in terms of the scheduled time were also evident in the audits of management of access rights, largely on account of the heterogeneity of this area and the non-standardised software support for this purpose, and in the audit of market risks within the framework of treasury operations, largely on account of the significantly increased activity in the execution of MREL investment operations and the purchase of green bonds and corporate bonds.

¹ Including holidays and absence due to sick leave.

Table 1: Analysis of use of scheduled time by the IAD in 2024

Aktivnost	Realizacija 2023	Plan 2024	Realizacija 2024	Realizacija 2024/ Plan 2024	Poraba neto časa	Realizacija 2024/ Realizacija 2023	Razlika Realizacija 2024- 2023
A REVIZIJSKE AKTIVNOSTI	455	391	416	106%	60%	91%	25
A1 Redni revizijski pregledi	357	290	345	119%	50%	96%	-12
A2 Izredni revizijski pregledi	0	25	0	0%	0%		0
A3 Spremljava priporočil	32	31	41	133%	6%	113%	9
A4 Svetovalna dejavnost	66	45	29	65%	4%	40%	-37
B AKTIVNOSTI POVEZANE Z REVIDIRANJEM	208	244	248	102%	35%	119%	4
B1 Tekoča spremljava/ nadzor/ udeležba na odborih	48	30	41	137%	6%	102%	-7
B2 Načrtovanje delovanja notranje revizije	10	10	10	97%	1%	107%	0
B3 Obdobno poročanje o delovanju notranje revizije	37	30	30	100%	4%	81%	-7
B4 Razvoj metodike revidiranja	3	50	44	88%	6%	1567%	41
B5 Izobraževanje in usposabljanje	44	42	59	140%	9%	133%	15
B6 Sodelovanje z zunanjimi institucijami/ drugimi dajalci zagotovil	51	60	43	72%	6%	84%	-8
B7 Vodenje oddelka	15	22	22	100%	3%	147%	7
C AKTIVNOSTI, KI NISO POVEZANE Z REVIDIRANJEM	36	32	33	103%	5%	92%	1
C1 Administracija in ostali posli	36	32	33	99%	5%	88%	-3
D ODSOTNOSTI IN NEEFETIVNI ČAS	214	250	234	94%		109%	-16
D1 Prazniki	39	42	42	100%		108%	3
D2 Dopusti	105	136	122	89%		116%	17
D3 Boleznine	25	20	13	66%		52%	-12
D4 Neefektivni čas (malica, odmori)	45	52	57	110%		127%	12
SKUPAJ	913	917	931	102%		102%	14

Use of scheduled time: The deviations in the actual days spent on auditing activities from the number of days scheduled in the IAD's annual work plan for 2024 are the result of the following developments/activities:

- Conclusion of audits under AP 2023:** Audits from the annual plan for 2023 (five in total, as seen in the table of completed audits) were still being conducted and completed in the first quarter of 2024, namely until mid-February.
- Execution of audit under AP 2023:** One audit from the annual plan for 2023 (*Management of loan funds (3/2023)*) was conducted in full in 2024 during the time earmarked for scheduled audits. It took 33 days. This used up time reserved under the annual plan for 2024 for extraordinary audits (25 days).
- Increased use of time:** In addition to the scheduled audit from the annual plan for 2023 (33 days), more time than scheduled was spent on the *Audit of management of access rights (4/2024)* (13 days), on *Market risks (treasury operations) (5/2024)* (eight days), on other audits (one day), and on the follow-up of past audit recommendations (focusing on IT and compliance) (10 days).

Another factor in the increased use of time was the increase in activity in following up audit recommendations, particularly in the areas of compliance and ICT, where recent audits have seen recommendations of the highest priority issued.

Time resources: The increased time used was taken from the item reserved for extraordinary audits (25 days), the reduced time spent on formal and informal advisory engagements (16 days) and collaboration with external institutions and other assurance providers (17 days), and the use of less time than scheduled on the audit of personal data protection and the outsourcing audit of Avtenta (31 days), as this was itself outsourced under the IAD's coordination and was limited to the part concerning the Bank.

Additional time was spent on increased current monitoring (11 days) and education and training (17 days), primarily on account of the training provided in the area of the new Global Internal Audit Standards and training for the Bank's senior managerial staff.

Overall the time spent on auditing engagements (scheduled and extraordinary) was 9% more than was scheduled in the annual plan for 2024 (see clarifications of previous paragraphs), but 4% less than in 2023 on account of the reasons cited above.

A total of 60% of the net available time was spent on auditing activities during the 2024 financial year (compared with 65% in the 2023 financial year). The IAD spent 95% of its net available time on auditing and auditing-related activities.

IAD's financial plan for 2024

In accordance with the law and the old standards (and subsequently the new standards), the Supervisory Board approves the budget and a plan of all resources for the work of the IAD (salary costs, training costs, material costs, outsourcing costs, etc.). The table below illustrates the department's planned and realised expenditure in 2024 (in line with the structure from the annual plan of work for 2024).

	(1) Plan for 2024	(2) Realisation in 2024	Difference (1-2)	Difference relative to plan
Costs of training courses, seminars, conferences, webinars	7,500	7,236	-264	-4%
Costs of business trips	1,500	1,407	-93	-6%
Other costs of administration, post and telecoms, certificates	900	1,022	122	14%
Costs of outsourcing and experts for individual audits (annual plan for 2024) (GDPR audit and outsourcing audit)	30,000	34,057	4,057	14%
External quality assessment and assessment of IAD's compliance with standards	15,000	0	-15,000	-100%
Gross-gross fixed labour costs	301,264	307,562 ⁷	6,298	2%
Gross-gross variable labour costs	28,107	25,177 ²	-2,930	-10%
Total	384,271	376,461	-7,810	-2%

The partial upward deviation (of 14%) from the year-end amount cited in the plan under the item of outsourcing costs is primarily attributable to differences in the audited area relative to the assumptions in the plan of work.

With the approval of the Management Board and the Supervisory Board, the entry into force of the new Global Internal Audit Standards meant that the decision was taken to conduct an external quality assessment of the functioning of internal auditing before the end of 2025, when the implementation of the updated standards in practice can also be reviewed via a review of individual audits planned for and conducted in 2025. The approximate cost of the audit in the amount of EUR 15 thousand was thus not spent in 2024.

The gross-gross labour costs of employees at the IAD over the course of the year were down 2% on the planned amount; the changes in the fixed portion relate primarily to horizontal promotions, while there is a similar effect evident in the variable portion for the same reason. Total variable remuneration, which combines on-the-job performance of more than 7%³ according to the collective agreement and corporate performance, accounted for 7.6% of the total gross-gross remuneration in the department in 2024.

Assessment of the performance of the IAD in 2024

The following performance criteria were included in the IAD's annual work plan for 2024:

- the use of at least 60% of net available time (after taking into account absences) for auditing activities and at least 85% of net available time for auditing and auditing-related activities; and

² According to the accounting department's data for 2024, for the sake of comparability with the planned data according to the gross-gross principle, realised gross remuneration was increased by the employer's contribution in the amount of 16.1%.

³ Monthly on-the-job performance payments of up to 7% under the collective agreement are treated in accounting terms as part of variable remuneration.

- the realisation of at least 80% of the scheduled audits, or at least 65% of the scheduled audits if the amount of time required for extraordinary audits exceeds the time planned for extraordinary audits by 25%.

The IAD substantively coordinated two Banka Slovenije inspections in keeping with its duties and its practice of collaboration with the regulator; the third inspection did not require coordination or intensive collaboration. An audit that related to the annual plan for 2023 had an impact on the performance indicators, as did the increase in training activities in the area of the new Global Internal Audit Standards.

Our opinion is that the IAD performed well in 2024, and amid all the aforementioned activities hit both of its targets:

- 60% of the IAD's net available time was spent on auditing activities (2023: 65%), as required by the target, while 95% of the IAD's net available time was spent on auditing and auditing-related activities (2023: 95%).
- 100% of the scheduled auditing work was realised (2023: 86%), thus surpassing the target of 80%. A total of 11 audits were conducted in 2024, including one audit from the annual plan for 2023.

Assessment of the compliance of remuneration practices with remuneration policy

The system of governance, risk management and internal controls in the area of remuneration is assessed as appropriate, as the essential elements of legislation are taken into account and included in both remuneration policies that were in force in 2024. The provisions of the two policies were implemented in practice, and no particular deviations were identified with regard to the system put in place and remuneration policy. There are places where it would be possible to upgrade procedures in documenting the supervision of compliance and ensuring trails for the formal inclusion/briefing of the risk management function in subsequent procedures related to the definition, concretisation and annual changes to performance metrics for variable remuneration to improve consistency in upholding the EBA guidelines.

Summary of significant findings from audits

Annual work plan for 2024:

The *system for processing and managing personal data*, and the associated risk management and internal controls are assessed as **deficient or unsatisfactory**. The exception is the area of the security of processing and the inbuilt protection. In regulating and managing this area, the Bank is committed at a minimum to upholding the GDPR of May 2018 and the Personal Data Protection Act (ZVOP-2) of January 2023. The Bank must move ahead with its comprehensive recording of data flows (EDO and privacy information), ensure a proper role for the DPO, set out and put in place rules, procedures and responsibilities in connection with data processing, and continue its comprehensive review and updates of the storage periods and the scope of the personal data processed and stored. We also recommend the documented and timely identification and updating of personal data processes, including the possibility of handling objections by data subjects and the procedures for this. Once the data flows have been fully inventoried, it is also necessary to inventory and put in place records of data output and contracted data processors within the framework of the public procurement system and the management of outsourcing. There is a need to continue with the existing policies and procedures for controlling, managing, documenting and recording information security risks and operational risks, and to set out clear plans for processing personal data in contingencies, and the authorised persons in this area in cases covered by the business continuity plan. In defining the role and authorisations of the DPO, the Bank must set out the conditions for their appointment and the procedures for reviewing conflicts of interest, must ensure the independence of the function through direct reporting and the inclusion of the DPO in the Bank's (sub)processes and (sub)systems, and must provide adequate resources for the DPO to do their work. There is also a need to review the eligibility procedures with regard to the video surveillance put in place at the Bank, and to put in place a comprehensive onboarding and refresher programme (general, specialised) for the DPO.

The area covered by the audit of outsourcing and the outsourcing audit of Avtenta is assessed as **deficient**. The audit identified deviations, deficiencies and non-compliances with the EBA guidelines on outsourcing and the EBA guidelines on ICT and security risk management, and other applicable rulings, as a result of which the functioning of internal governance, the internal control system and risk management is **ineffective/deficient** at both the Bank and at the external provider. Our recommendation to the Bank is for an active approach to analysis and upgrades to the public procurement system, and for significant enhancements to the management of outsourcing.

The system of internal governance, risk management and internal controls related to the supervision of the purpose-specific use of funds in three key segments of financing (direct financing including the loan funds, indirect financing, and financing within the framework of the fund of funds) is assessed as **appropriate**. With the aim of the timely identification of the risk of non-purpose-specific use of loans, including in connection with monitoring allocated state aid, there is a need in individual areas to upgrade the starting points for drafting the annual plan for the supervision of purpose-specific use, to strengthen activity in conducting supervision of purpose-specific use at the headquarters of the financed investments, and to examine any activities that might be required in ensuring a comprehensive approach to the supervision of purpose-specific use by individual customers (groups) irrespective of the source of financing (financing of the same customer (group) and the same investment from various sources of funds), particularly in cases involving state aid.

The *management of access rights* at the Bank is generally assessed as **appropriate**, the last few years having seen a number of activities aimed at reinforcing information security, such as the use of multi-factor authentication in remote access and the introduction of a tool for managing privileged accounts. We recommend that the possibility of upgrading the rules for managing access rights from the perspective of limiting the time that they are valid for in systems be examined. With consideration being given to a potential replacement, there are significant deficiencies in the area in connection with the current software support for rights. There is a need to upgrade bylaws from the perspective of a more comprehensive documentation of the arrangements for managing passwords, audit trails and daily logs, by examining the storage of audit trails and daily logs. We also recommend the creation of a comprehensive record of special user accounts, and the drafting of a protocol for the management of outsourcers' rights, as this area is assessed as deficient.

The *management of treasury operations and general securities purchases*, the management of the *related market risks* and the controls put in place are assessed as **appropriate**. The risk was primarily being raised by the framework for SID Bank's activity in the purchase of MREL-eligible bonds, regarding which the Supervisory Board received additional and expanded briefings, and the framework for SID Bank's activity in the purchase of green bonds of Slovenian corporates put in place in 2023 and 2024, given that there was no comprehensive practice previously put in place in this area. Because the rules are included in the bylaws subsequently (while some are still in the process of being drafted⁴), we recommend the systematic and formal storage of the development documentation for each framework in the Bank's document system, in part to be able to monitor the changes thereto. In accordance with its mandate under law and the EU state aid rules, SID Bank is required to ensure the purpose-specific utilisation of its funds under the ZSIRB. Ensuring that market conditions are satisfied is mainly envisaged through limiting the extent of SID Bank's participation (within the Bank's eligible MREL quota), and self-limitation in the case of excess demand. The Bank should ensure purpose-specific use via a side agreement, under which it instructs but does not bind the intermediary (obligation to try), for which reason the formalisation of procedures for supervising the intermediary banks with regard to meeting the conditions of more difficult access to funding (maturity, collateral and credit rating) is recommended. In connection with the recording and classification of debt securities in the business models, we recommend a re-examination with regard to accounting treatment, as all purchases of MREL-eligible securities and green corporate bonds since the second half of 2023 have been classed under the first

⁴ E.g. the valuation model for illiquid debt securities.

business model.⁵ The replacement of the software support in progress should also include the support for monitoring limits, whose current reliance mainly on manual work is increasing operational risk in this area.

The management of the *system for processing suspected breaches and whistleblower protection* is assessed as **appropriate**, although there is a need for **upgrades in places**. The Bank defined its internal rules and procedures for receiving and processing reports of breaches, which need to be simplified and coordinated in certain parts. The diverse reporting pathway is currently not software-supported, and is inconsistent in places.⁶ There is also a need to define it separately for staff in compliance. To ensure greater independence, we propose a smaller number of trustees, and the processing of reports by teams of two. We also highlight the need to update the record of reports, the storage of documentation with an audit trail, the formalisation of the investigation process, and the need to make employees aware of the system.

The system of governance, risk management and internal controls in connection with *insurance operations* is assessed as **appropriate**. For the purpose of strengthening the internal control system, we propose that an upgrade to the risk management function be examined, at system level (comprehensive risk management with the definition of more detailed powers and responsibilities of the OU) and from the perspective of the process of entering into insurance operations. There is a need to review and combine the bylaws as appropriate, and to put in place operationally documented instructions for drawing up various reports for internal and external stakeholders. Given the increased operational risk related to the low level of automation of the audited insurance process, there is a need to continue with the work to introduce software support to adequately support the entire insurance process, having regard for the integration of the software into the existing IT environment, and the principles of economic justification and efficiency.

The governance of the *credit protection system* within the framework of the approval and monitoring of credit operations and risk management is assessed as **appropriate**, although there is a need to **strengthen the internal control system in places**. The Bank has implemented the regulatory provisions and the recommendations of supervisory institutions in connection with the system of credit protection in its bylaws and working procedures. It is necessary to review the process of the management of contractual commitments and to transfer custodianship of the bylaw to the credit risk assessment unit, and to upgrade the rulebook in the area of collateral for investment operations. The system of controls in the area of recording and booking (valuation of) collateral in the transaction software, and the regular monitoring of collateral values have been put in place, but deficiencies in its performance were identified in places, and it therefore needs to be strengthened in this part. The process of the annual monitoring of real estate collateral values is in progress.

The area of *business continuity management* is assessed as **appropriate**. Activities in the last year in particular have driven an improvement in this area, based in part on advice from the regulator and internal auditing. The most important relate to migration of the reserve location, investment in the security backup system, upgrades to bylaws, and an overhaul of the data centre. During the audit an extensive overhaul of bylaws was in progress in the area of information security, which also cover business continuity management, with the aim of ensuring compliance with the requirements of the new DORA and adapting to the latest changes in the Bank's ICT environment. There is a need to upgrade and augment to rulebook on the business continuity plan, and the business continuity plan itself, which is now underway in connection with the aforementioned regulation. Opportunities for improvement were also identified with regard to the future development of recovery plans and the related bylaws, upgrades to testing, and training.

⁵ Under this model the aim is the collection of contractual cash flows (under the second model the aim is collection of contractual cash flows and sale).

⁶ The make-up of the report, the guidance on the website, the availability of the reporting form, etc.

Annual work plan for 2023

The area of the *management of the loan funds* and the related system of internal governance, risk management and internal controls is assessed as **appropriate**, on the basis of an audit that covered the control environment, contractual relationships, monitoring procedures and procedures for completing the implementation of financial engineering. The Bank has defined its policies and procedures for the financial engineering process, and has defined the relevant responsibilities and demarcations, individual parts of which are currently in the process of being updated. The procedures for monitoring and controlling the purpose-specific use of assets from the loan funds are being implemented to a sufficient degree, although there is a need to strengthen the follow-up of the measures in the event of breaches, to present the findings to the Bank's bodies, and to take them into account as starting points for drafting the plan for supervising purpose-specific use for the following year. The process of putting in place permanent technological support to provide more up-to-date data about free assets in the fund is underway.

Organisational independence

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. Examples of functional accountability to the supervisory body are when it:

- *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 in connection with the appointment and dismissal of the chief audit executive,*
- *approves the remuneration of the chief audit executive.*

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 conflicting 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.

Standard 2000 – Managing the internal audit activity requires effective management to ensure it adds value to the organisation.

The internal audit activity adds value to the organisation and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.

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 161 of the ZBan-3, 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 answerable to the Bank's Management Board. Organisational independence is also conditional on allocated access rights in software support, and unrestricted access to all premises, employees, registers and records.

In accordance with the rules of procedure of the IAD and Article 164 of the ZBan-3, the IAD submitted its strategic and annual work plan, the annual internal audit report for 2024 and the quarterly internal audit reports to the Management Board, and then to the audit committee and the Supervisory Board in 2024. The IAD thus met the requirements regarding its functional responsibility to the supervisory bodies.

All IAD employees signed a statement confirming their individual objectivity and independence for 2024, and confirming the absence of conflicts of interest amongst IAD employees in the performance of auditing and auditing-related activities.

Ljubljana, 18 February 2025

OPINION OF THE SUPERVISORY BOARD OF SID BANK REGARDING THE ANNUAL INTERNAL AUDIT REPORT FOR 2024

Pursuant to the International Standards for the Professional Practice of Internal Auditing and Article 164 of the Banking Act (Official Gazette of the Republic of Slovenia No. 92/21; hereinafter: the ZBan-3), the internal audit department of SID Bank issued the annual internal audit report for 2024 and submitted it to the Bank's management board, audit committee and supervisory board for discussion.

In accordance with the requirement of Article 50 of the ZBan-3, 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 164 of the ZBan-3.

The supervisory board regularly monitored the work of SID Bank's internal audit department in 2024. 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 2024, when they also dedicated attention to progress in the implementation of the aforementioned department's recommendations as well as implementation of the annual and financial plan of the department. 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 own 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 2024 - 2025 and the work plan of the internal audit department for 2024.

The Supervisory Board and the Audit Committee also monitored the staffing situation of the Internal Audit Department in 2024. In addition to regular reviews, formal and informal consultations were carried out to a lesser extent. The Internal Audit Department has fully implemented the annual work plan, including the audit review carried out in the Annual Work Plan 2024.

At its 138th session held on 27 February 2025, the audit committee discussed the annual internal audit report for SID Bank for 2024.

At its 260th session held on 5 March 2025, the supervisory board the supervisory board took note of the annual internal audit report for SID Bank for 2024, and issued a positive opinion regarding the report.

Janez Tomšič
Chair of the Supervisory Board