SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana
(SID Bank, Inc., Ljubljana)

ANNUAL REPORT 2007

Company name: SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana
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Contents

The English translation of authentic Slovenian text serves merely information purposes and in case of dispute the Slovenian text shall prevail.

Statement by the President of the Board

Dear Ladies and Gentlemen

2007, the first year of SID Bank's operation as a bank, was a good year in many respects. As a bank, we created significant value for our clients, performed efficiently under the changed conditions of Slovenia's financial system as part of the euro system, set out to pursue the Bank’s new strategic goals equally important for our employees and owners, and delivered very good business results.

SID Bank's strong performance, reflected in considerably higher business volume and unparalleled growth that pushed total assets up 55 percent to just over one billion euros, was fuelled by the active and high-performing environment in which we provided our products and services. Slovenia's GDP growth was a high 6.1 percent with exports as the main driver of the rise in both the national economy and SID Bank's business operations up by 14 percent. The banking system grew at an average rate of 25 percent, and the upward trend was even stronger in loans pushing up 37 percent year-on-year. In addition to these factors, the above-average performance of the Bank was also helped by the conditions governing international financial markets which offered surprisingly favourable access to sources of funding in the first half of 2007. At almost the same time, the first signs of a reversal of trend became apparent, which encouraged financial institutions to increase their borrowing. Accordingly, the new SID Bank financing facilities, which were mainly intended for banks and companies, climbed 62 percent in business volume and totalled EUR 1.2 billion at the end of the year. In addition to the above mentioned drivers, growth was partly attributable to the fact that SID Bank entered the Slovenian market as a new, well-positioned, specialized promotional bank offering new financial facilities for banks and companies alike.

As a result, the net profit of the Bank climbed 41 percent in 2007 pushing the figure to EUR 3.6 million. We kept a strong grip on costs, decreasing our cost/income ratio from 52 to 46 percent and so improving our business performance in line with the Bank's mission and vision.

External circumstances affecting the operation of the Bank changed considerably throughout the year. In the favourable environment of the first half of 2007 and under the impact of previous years, the risks and the attitude to risks have changed towards higher acceptance. In response to these changes, commercial banks and insurance companies started undertaking non-marketable credit risks, as also evident in SID Bank's results and the structure of business operations. Nevertheless, total volume of business insured increased by 32 percent to EUR 530 million, largely due to the performance in insurance of outward investment of Slovenian companies abroad rising 55 percent to EUR 477 million. In 2007, Slovenia again saw an upsurge in outward investment volume to nearly EUR 5 billion and became the only new EU member state to meet the requirements for the positive net direct outward investment position. As a result, the overall 2007 business result for transactions conducted for the account of the state was EUR 5 million, which was used to further increase the contingency reserve funds, closing the year at EUR 103 million.

The optimism of the previous year, however, was soon to vanish in the summer crisis of subprime loans in the U.S. financial market that was quick to expand its effect to European banks. The results of the crisis, taking the form of tectonic changes in all financial markets, have already become clear, but the full extent, depth and length of the crisis will only be seen in the following years. In its operations, SID Bank paid close consideration to these circumstances and, in particular, to the escalation of the crisis affecting South East Europe, namely Kosovo and Serbia, where we maintain a strong presence. In the last months of 2007, we refocused our operations to adjust to the changed conditions in these markets.

With a view to enabling the Bank to continue to fulfil its strategic mission, the Government of the Republic of Slovenia granted SID Bank mandate to expand its operations to new business areas, e.g. financing of SMEs, research and development, environment and energy as well as communal and infrastructure financing. The government also started the procedures to amend the legislation to ensure SID Bank with a position comparable with other specialized promotional and development banks in the EU.

Within the company, we paid particular attention to human resource management, optimization of business processes, redesign of the information system strategy and strengthening its back office functions, in particular Basel II-based risk management and risk profile assessment, and management of the SID Bank Group. With regard to the mentioned conditions, SID Bank Group had a good year especially in terms of growth rates as both SID – Prva kreditna zavarovalnica and Prvi Faktor delivered record-breaking results in 2007.

In 2007, the Bank was also actively involved in international activities. It organised the Spring Meeting of 55 members of the Berne Union in Ljubljana and joined the Brussels-based European Association of Public Banks (EAPB). At the end of 2007 these and past successes and the international establishment of the company were celebrated on the occasion of the 15th anniversary of SID Bank as the successor of Slovenska izvozna družba.

As we are fully aware that our success is based on the dedication and loyalty of our employees, I would like to extend my thanks and the thanks of the entire Management Board to our staff and all those who have supported and supervised us throughout these years.

I hope that we can find a way to maintain this dedication and focus in the new times and conditions ahead of us as these significantly affect the operations of specialized banks, as SID Bank, and their role in the international financial system with all its weaknesses and strengths, a part of which we have surely become.

It is therefore our responsibility towards our clients, shareholders, the environment and the employees to make sure that in the following years, possibly less favourable than the years behind us, SID Bank as a specialized promotional and development bank will show its true worth, knowledge and innovative capability for dealing with change as the factors contributing to the achievement of desired development results and set goals.

Sibil Svilan, MSc.

Statement by the Supervisory Board

In 2007 SID Bank's operations were overseen by the Supervisory Board in two compositions. Dr. Andrej Bajuk, Helena Kamnar, M.I.A., Gonzalo Caprirolo, MSc, Dr. Božo Cerar, Jožko Čuk, MSc, Dr. Andrej Kitanovski and Dr. Mojmir Mrak were members of the Supervisory Board in the first half of the year, and at the regular Shareholders' Meeting held on 30 July 2007 new members of the Supervisory Board were appointed, namely Stanislav Berlec, Ivan Govše, Dr. Marko Jaklič, Dr. Robert Kokalj and Stanislava Zadravec Caprirolo, M.I.A., while Helena Kamnar , MSc and Jožko Čuk, MSc continued their work as Supervisory Board members throughout the year.

Supervisory Board comprehensively monitored and supervised the operations of the bank against it set goals, working in accordance with the Rules of Procedure of the Supervisory Board, the Statute of SID Bank and in line with the regulations stating the authorities of the Supervisory Board.

In 2007 the Supervisory Board met at eight regular and three correspondence meetings where it studied periodical reports on the operations of SID Bank and the companies of the SID Bank Group, quarterly internal audit reports, risk management reports and other general and specific issues related to the business operations of the Bank, and decided on all matters within its powers.

Furthermore, the Supervisory Board established a Supervisory Board Audit Committee comprising Helena Kamnar, MSc as President, Stanislav Berlec as Deputy President and Romana Logar, MSc as External Committee Member. The Audit Committee discussed documents and drafted Supervisory Board decisions mainly with regard to financial information, risk management system, internal audit and controls, and external audit.

Throughout 2007 the Supervisory Board closely monitored the implementation of SID Bank's Action Strategy 2007-2010, achievement of strategic objectives and delivery of key strategic projects, human resource policy, risk management and introduction of Basel II as well as further development of the Bank's information system.

In 2007 the Supervisory Board discussed and decided on the following important issues:

- business policy and financial plan for 2008,
- working plan of internal audit for 2008,
- status and development of IT system,
- borrowings in international financial markets,
- changes to the Statute of SID Bank,
- increase in capital from own funds,
- regulation of relations between SID Bank and companies of the SID Bank Group,
- risk management strategy and policy,
- risk profile,
- overview of own share trading business, and
- in-depth analysis of SID Bank's role prepared by the Competitiveness Institute.

After Mr Marko Plahuta resigned as member of the Management Board in July 2007, the Supervisory Board discussed and confirmed the new distribution of responsibilities among the members of the board.

In monitoring and supervising the business operations of SID Bank the Supervisory Board obtained all the information necessary for continuous evaluation of results achieved and of the performance of the Management Board, and adopted decisions within its powers.

At its meeting held on 19 May 2008, the Supervisory Board examined in detail the Annual Report for 2007 together with the report of the certified auditors prepared by the auditing company Deloitte revizija d.o.o., which gave its positive opinion on the financial statements of SID banka, d.d., Ljubljana for 2007 and on the consolidated financial statements of the SID Bank Group for 2007.

Upon examination of the mentioned reports the Supervisory Board expressed an opinion that in 2007 SID Bank successfully followed its planned policy and achieved its set business goals. Therefore, the Supervisory Board has no reservations to the submitted reports and hereby confirms the Annual Report of SID banka, d.d., Ljubljana for the year 2007.

Stanislava Zadravec Caprirolo, M.I.A.
Chairperson

1. Highlights from the Business Operations of 2007

Business results of SID Bank in 2007 or as at 31 December 2007

Business results from operations on own account

- **Financing of international business transactions**: EUR 1,164.4 million (up by 65.4%)
- **Value of guarantees issued**: EUR 52.5 million (up by 45.8%)
- **Total assets**: EUR 1,248.7 million (up by 54.8%)
- **Total assets including contingency reserve and IREP**: EUR 1,361.4 million (up by 49.5%)
- **Net profit**: EUR 3.6 million (up by 41.2%)

Business volume and results from insurance on behalf and for the account of the Republic of Slovenia

- **Export credit and investment insurance against non-marketable risks** on behalf and for the account of the state: EUR 530.2 million (an increase of 31.8%), broken down into: short term export credit insurance EUR 5.7 million (down by 9.5%), medium term export credit insurance EUR 47.4 million (down by 46.6%) and investment abroad EUR 477.1 million (up by 55.4%).
- Premiums: EUR 4.0 million (down by 40.0%); claims: EUR 0.35 million (down by 64.8%)
- Contingency reserve: EUR 103.0 million (up by 5.2%)

Key figures

in EUR million	2003	2004	2005	2006	2007
Number of shareholders	89	88	87	87	**85**
Nominal capital	39.4	38.9	38.9	38.9	**89.6**
Equity	78.2	79.4	103.3	104.4	**107.6**
Net profit	1.2	2.6	7.9	2.6	**3.6**
Return on equity after tax (ROE)	1.52%	3.29%	7.99%	2.45%	**3.72%**
Number of employees (31 Dec.)	74	83	62	68	**69**

** Note: Unless otherwise specified, SIT (Slovene Tolars) equivalents in EUR used for showing SID business results at the end of each calendar year correspond to the middle (final monthly) exchange rates of the Bank of Slovenia on the last day of each calendar year. Thus the following exchange rates were used for expressing the data in EUR (31.12.2003: 1 EUR = 236.6903, 31.12.2004: 1 EUR = 239.7430, 31.13.2005: 1EUR = 239.5756, 31.13.2006: 1EUR = 239.6400). For other operational figures the values expressed in EUR were calculated from the average monthly exchange rates of the Bank of Slovenia in a given calendar year (2003: 233.7045 SIT, 2004: 238.8615, 2005: 239.6371, 2006: 239.6013).*

Business results of companies of the SID Bank Group in 2007 (as at 31 December 2007)

SID – Prva kreditna zavarovalnica d.d., Ljubljana

- Wholly-owned by SID Bank
- Equity: EUR 18.7 million (up by 1.6%), including credit risk equalisation reserve in the amount of EUR 9.5 million
- Business volume (domestic and export credit insurance against marketable risks):
- EUR 4.7 billion (up by 25.3%).
- Total assets: EUR 46.7 million (up by 16.3%)
- Net profit: EUR 1.8 million (down by 4.0%)

PRO KOLEKT, družba za izterjavo, d.o.o.

- Wholly-owned by SID Bank
- Equity: EUR 258.7 thousand (2006: EUR 12.8 thousand; in 2006 a capital increase of EUR 390 thousand was carried out)
- Value of assumed collection cases: EUR 14.2 million (down by 2.3%)
- Total assets: EUR 370.4 thousand (up by 311.8%)
- Loss: EUR 144.2 thousand (2006: EUR 16.9 thousand)

PRVI FAKTOR, faktoring družba, d.o.o.

- Fifty percent owned by SID Bank
- Equity: EUR 6.8 million (2006: EUR 3.3. million; in 2006 a capital increase of EUR 2 million was carried out); PRVI FAKTOR Group: EUR 13.8 million (2006: EUR 5.9 million)
- Value of receivables purchased: EUR 249.8 million (up by 35.8%); PRVI FAKTOR Group: EUR 802.7 million (down by 60.4%)
- Total assets: EUR 123.8 million (up by 84.3%); PRVI FAKTOR Group: EUR 323.5 million (up by 55.9%)
- Net profit: EUR 1.7 million (2006: EUR 185 thousand); PRVI FAKTOR Group: EUR 6.1 million (2006: EUR 2.3 million)

Centre for International Cooperation and Development

- SID Bank co-founded the Centre for International Cooperation and Development
- Operating income: EUR 320 thousand (up by 26.4%)
- Net revenue surplus in the business year: EUR 4.5 thousand (2006: expense surplus EUR 13 thousand).

Consolidated financial statements of the SID Bank Group

- **Total assets**: EUR 1,437.0 million (up by 53.3%)
- **Equity**: EUR 127.6 million (up by 6.6%)
- **Net profit**: EUR 6.7 million (down by 3.3%)
- **Return on equity after tax**: 5.45% (5.90% in 2006)

2. Corporate Profile of SID Bank

Legal status and history

- SID Bank was established on 22 October 1992 as Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana (hereinafter referred to as SID), a specialised private-law financial institution for insurance and financing of exports of the Republic of Slovenia.
- The Corporation was entered into the Register of Companies at the District Court of Ljubljana with Decision No. SRG 8096/92 of 27 October 1992, under record entry number 1/19966/00.
- In accordance with the Act Governing Insurance and Financing of International Business Transactions (hereinafter ZZFMGP), which came into force in February 2004 and provides for transformation of SID into a bank and transfer of marketable insurance onto a newly formed insurance company, SID:
  - signed an agreement with the Ministry of Finance on the regulation of mutual relations concerning implementation of Chapter II of the ZZFMGP on 1 December 2004.
  - established an insurance company to which it transferred the insurance portfolio performed on its own behalf up until the end of 2004. SID – Prva kreditna zavarovalnica d.d., Ljubljana, wholly-owned by SID, was entered into the Register of Companies on 31 December 2004.
  - In 2006 the project of transforming SID into a bank was completed. Bound by Article 17, paragraph six, of the ZZFMGP, SID was required to harmonise all non-insurance-related operations, i.e. operations not regulated by the ZZFMGP, with the regulations governing the operation of banks by 31 December 2006. This process was carried out in compliance with the Decision on Harmonising Business Operations of Slovenska izvozna družba, d.d., Ljubljana and regulations governing the operation of banks, issued by the Bank of Slovenia pursuant to the ZZFMGP.
- On 24 October 2006 SID obtained a banking licence to provide banking and other financial services from the Bank of Slovenia.
- Upon entry into the Register of Companies on 29 December 2006, the company was renamed SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana or SID banka, d.d., Ljubljana for short (SID Bank, Inc., Ljubljana), and began formally operating as a bank on 1 January 2007.[1]
- As an authorised export credit agency (ECA), SID Bank provides insurance against non-marketable risks and the Interest Rate Equalisation Programme (IREP) on behalf and for the account of the Republic of Slovenia, and carries out financing and issue of guarantees for its own account. In this respect, the Republic of Slovenia issues guarantees in support of SID Bank securing the funds for financing of international business transactions to borrowers and investors into SID Bank's debt securities.
- SID uses a two-tier management system with a Management Board and a Supervisory Board. The management and supervisory boards act in accordance with existing legislation, the statute, corporate values and best practices employed by peer association, and in particular with the specific role of SID evident in the activities of SID Bank. Officially, however, the company does not apply the Corporate Governance Code.
- Members of the Supervisory Board are appointed at the General Meeting of Shareholders by an ordinary majority of valid votes cast by those shareholders present. However, the decision to recall Supervisory Board members requires a three-quarter majority of shareholders to be present or represented.
- The Management Board of SID Bank is appointed by the Supervisory Board. The Supervisory Board may recall a member of the Management Board or a Managing Director under the conditions stated in Article 268, paragraph 2, of the Companies Act. The Management Board of SID Bank shall represent the Bank jointly. The Management Board must obtain the consent of the Supervisory Board in all matters defined by law or the statute.
- Amendment of the company's statute requires a decision at the General Meeting of Shareholders taken by a majority of no less than three quarters of the votes cast, present or represented.

Capital

- The nominal capital is EUR 89,600 thousand, and was EUR 38,906 thousand as at 31 December 2006.
- At the General Meeting of Shareholders of 30 July 2007 a decision was made to increase SID Bank's nominal capital from company's assets by EUR 50,694 thousand to EUR 89,600 thousand. The capital increase was entered into the Register of Companies on 30 August 2007.
- The capital is divided into 932,354 ordinary registered no-par value shares issued in uncertificated form. The central securities register and all securities trading procedures are managed by the Central Securities Clearing Corporation in Ljubljana.

[1] In the continuation of this Annual Report, regardless of the time of operation and the change of company name, SID Bank, Inc., Ljubljana and prior to 29 December 2006 Slovene Export Corporation, Inc. Ljubljana are referred to as SID or SID Bank, whereas all capital-linked SID companies are referred to as the SID Group or the SID Bank Group.

- Equity amounted to EUR 107,554 thousand as at 31 December 2007.
- The audited book value per share as at 31 December 2007 was EUR 117.69, an increase from EUR 114.23 as at 31 December 2006.

Shareholders

- As at 31 December 2007 SID Bank had 85 shareholders.
- The majority shareholder of SID Bank is the Republic of Slovenia, which holds a 91.15 percent share.
- The voting rights of the shareholders of SID Bank are not limited, and the one share-one vote principle is applied. Financial rights attached to shares are linked to share ownership.

- ***Ownership structure by shareholder type (as at 31 December 2007)***

Shareholders	Ownership (in %)
Republic of Slovenia	91.15%
Banks	5.15%
Insurance companies	1.03%
Chamber of Commerce and Industry of Slovenia	0.01%
Other companies	2.58%
Natural persons	0.08%
Total	*100.00%*

- ***Shareholders (as at 31 December 2007***

Shareholders	Number of shares	Ownership (in %)
Republic of Slovenia	849,812	91.15%
SID banka, d.d., Ljubljana	18,445	1.98%
Nova ljubljanska banka d.d., Ljubljana	18,027	1.93%
Komercialna banka Triglav d.d. - in bankruptcy	5,104	0.55%
Lesnina Inženiring d.d., Ljubljana	4,420	0.47%
SKB banka d.d.	4,246	0.46%
Petrol, d.d., Ljubljana	3,940	0.42%
Zavarovalnica Triglav, d.d.	3,400	0.36%
Zavarovalnica Maribor d.d.	2,885	0.31%
Adriatic Slovenica d.d. Koper	2,100	0.23%
Total – major shareholders	*912,379*	*97.86%*

Activities

For its own account, SID Bank:
- Provides pre-shipment and post-shipment financing of international business transactions and international business cooperation,
- Issues guarantees,
- Enters into money, currency, capital and derivative market transactions,
- Provides credit rating and other credit information.

On behalf of the Republic of Slovenia, SID Bank as the national export credit agency (ECA) performs:
- Short-term export credit insurance and reinsurance against non-commercial and other non-marketable risks;
- Investment insurance against non-commercial risks,
- Medium-term export credit insurance against commercial and/or non-commercial risks;
- Interest Rate Equalisation Programme (IREP) in financing international business transactions, and
- Other transactions on special authorisations.

The SID Bank Strategy is to provide several new products and services whose introduction into the market depends on the decisions taken by competent national bodies. Pursuant to the Decision of the Government of the Republic of Slovenia of 19 July 2007, SID Bank received a mandate to expand its existing portfolio of services to cover:
- Promotion of the development and competitiveness of SMEs, in particular with regard to new finance/insurance schemes,
- Promotion of investment into research, development and education by developing specific financial schemes in support of these key areas,

- Financing of ecological projects through new instruments, mainly focused on environment protection, energy efficiency, renewable energy sources, carbon credits and instruments intended for fighting global warming and other emissions,
- Financial support to knowledge transfer among companies and universities, e.g. EU Seventh Framework Programme for Research and Technological Development and other special fields of knowledge transfer,
- Financing of development and infrastructure projects undertaken by municipalities and other public institutions, including guarantee, financial and public-private partnership support schemes for reconstruction, development and renovation of towns, universities, housing units, etc.
- Investment financing, or securitisation, i.e. long-term mortgage, communal and infrastructure (re)financing and securitisation of mortgage, communal and infrastructure credits and other loans and bank assets, e.g. SME-related
- International development cooperation, but only in the specific field of concessionary loans granted in the scope of international bilateral development assistance.

In the light of its policy of sustainable development and long-term financing, these services will ensure diversification of SID Bank's service portfolio.

SID Bank operations for the account of the Republic of Slovenia

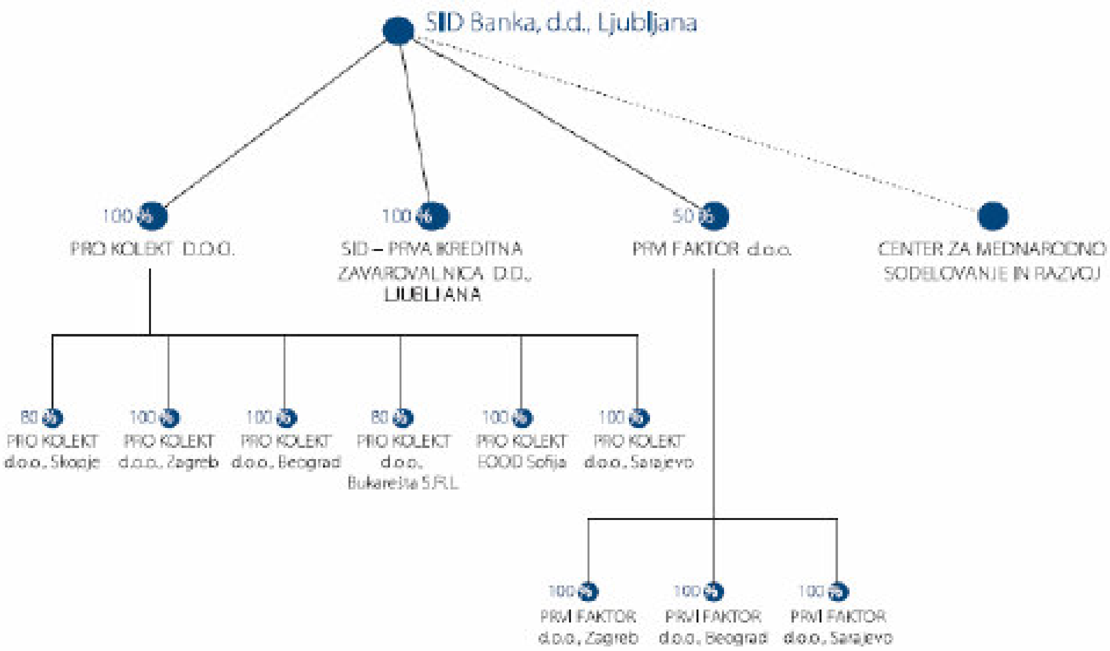
SID Bank performs insurance against non-marketable risks and conducts the Interest Rate Equalisation Programme on behalf and for the account of the Republic of Slovenia. SID Bank is also responsible for the management of the contingency reserve which constitutes an important capacity of SID Bank (and the Republic of Slovenia) for insurance against non-marketable risks before such claims are paid out of the state budget. Contingency reserves are set aside using received premiums, fees and commissions, recourses and other revenues from insurance and reinsurance activities regarding non-marketable risks.

Pursuant to the ZZFMGP and a long-term contract between SID Bank and the Ministry of Finance, contingency reserves are primarily utilised to settle liabilities to the insureds, pay costs of preventing and reducing claims, and to cover losses from transactions SID Bank performs on behalf of the state. If the losses cannot be indemnified from the contingency reserve, the funds for claims payments are supplied by the Republic of Slovenia.

In these operations as well as in providing financing for international business transactions from funds backed by the guarantees of the Republic of Slovenia, a special role is played by the government-appointed International Trade Promotion Commission, besides a number of other competent bodies.

The operations which SID Bank as the national export credit agency (ECA) performs on behalf and for the account of the Republic of Slovenia are clearly separated in terms of management and accounting from the operations which SID Bank performs for its own account.

Organisation chart of the SID Bank Group as at 31 December 2007



3. SID Bank Group

SID Bank is a constituent part of the SID Bank Group which also includes:
- SID – Prva kreditna zavarovalnica d.d., Ljubljana
- PRO KOLEKT, družba za izterjavo, d.o.o., with its subsidiaries
- PRVI FAKTOR, faktoring družba, d.o.o., with its subsidiaries

SID Bank is also a co-founder of the Centre for International Cooperation and Development.

SID – Prva kreditna zavarovalnica d.d., Ljubljana

The harmonisation of Slovenian legislation with the acquis communautaire and the adoption of new legislation, in particular the Act Governing Insurance and Financing of International Business Transactions (hereinafter ZZFMGP), have led to changes in the organisational structure of SID and seen the expansion of the SID Group. As the sole owner of the company, SID established a specialised credit insurance company, SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter PKZ), in 2004, thus harmonizing its legal status and insurance-related business on own account with regulations governing the operation of insurance companies.

After obtaining all the necessary licences required to deal in insurance, the newly established company was entered into the Register of Companies on 31 December 2004 with nominal capital in the sum of EUR 4.2 million. In conformity with the provisions of the agreement and consents from its supervisory body, SID transferred the insurance portfolio performed on its own account prior to the end of 2004 to its subsidiary. Since 1 January 2005, all insurance-related business has been conducted exclusively by the newly established insurance company. Via portfolio transfer, insurance policy holders were ensured uninterrupted service on existing insurance contracts, regardless of the changes in the company's legal status. The transfer of employees from the SID Credit Insurance Department to the new insurance company also guaranteed continuity in terms of human resources and operational efficiency.

With regard to ownership and business performance, the operations of PKZ remain an inseparable part of the SID Bank Group, ensuring that despite legal changes the synergetic effect of running complementary facilities is maintained.

The registered principal business activity of PKZ is the conclusion and execution of property insurance in the insurance classes of credit insurance and suretyship. The company provides insurance for short-term credit to private-law entities (normally, suppliers' credit for up to 180 days or, exceptionally, up to one year). PKZ also provides insurance against commercial and other marketable risks for companies selling abroad and/or in Slovenia on deferred payment, normally on open account. Insurance contracts are normally made on a whole turnover revolving basis covering the risks of non-payment in foreign and domestic markets.

The company is led by a two-member Management Board, represented by Mr Ladislav Artnik, President of the Board, and Mr Rasto Hartman, Member of the Board. The Supervisory Board is composed of three members: Mr Jože Bradeško, President, Ms Alenka Ferjančič of SID Bank and Mr Ivan Štraus, Employee Representative of PKZ.

The nominal value of the equity interest owned by SID Bank was EUR 4.2 million as at 31 December 2007.

PRO KOLEKT, družba za izterjavo, d.o.o.

PRO KOLEKT, družba za izterjavo d.o.o. (hereinafter PRO KOLEKT Ljubljana) was established in 2004 by its sole owner, SID, with offices registered at Ulica Josipine Turnograjske 6, Ljubljana. The nominal capital of the company was EUR 28.8 thousand. Following a decision by the Management Board of SID Bank, the nominal capital was increased by EUR 390.0 thousand in February 2007 to EUR 418.8 thousand. The nominal value of the equity interest owned by SID Bank was EUR 418.8 thousand as at 31 December 2007.

Mr Miloš Varga has been appointed General Manager of the company. The General Meeting of the company is represented by the Management Board of SID Bank.

PRO KOLEKT, Ljubljana specializes in out-of-court debt collection. Originally, the company was established as a debt collection service for the SID Group. Today it handles debt collection cases for creditors in Slovenia and abroad. Among foreign clients, the principals of PRO KOLEKT, Ljubljana increasingly include export credit agencies and debt collection agencies.

For foreign creditors PRO KOLEKT, Ljubljana performs representation in court proceedings (recovery of debt through court action, forced settlements, bankruptcy proceedings, etc.) and provides credit rating information.

Aware of the importance of South East European markets for the Slovenian economy and the comparative benefits associated with their presence in the regional market, PRO KOLEKT, Ljubljana began setting up a network of subsidiaries in 2006 and has established six subsidiaries to date:

- PRO KOLEKT d.o.o., Zagreb, Croatia, specializing in business consulting, was founded on 1 February 2006 by PRO KOLEKT, Ljubljana as its sole owner. The nominal capital of the company is EUR 13.8 thousand. The General Manager of the company is Mr Ivica Balenović; the General Meeting of PRO KOLEKT d.o.o., Zagreb is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2007 equalled the balance of the nominal capital on the same day.
- PRO KOLEKT d.o.o., Skopje, Macedonia, specializing in other financial activities, was founded on 6 July 2006 and is 80 percent owned by PRO KOLEKT, Ljubljana and 20 percent owned by Štedilnica Mladinec Skopje. The nominal capital of the company is EUR 10.0 thousand. The General Manager of the company is Mr Goran Markovski; the General Meeting of PRO KOLEKT, d.o.o, Skopje is represented by the General Manager of PRO KOLEKT, Ljubljana and the Director of Štedilnica Mladinec Skopje. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2007 equalled EUR 8.0 thousand.
- PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd, Serbia, specializing in other business activity, was founded on 18 December 2006, and is wholly-owned by PRO KOLEKT, Ljubljana. The nominal capital of the company is EUR 25.0 thousand. The General Manager of the company is Mr Nikola Debač; the General Meeting of PRO KOLEKT, društvo za izterjavo dolga, d.o.o., Beograd is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2007 equalled the balance of the nominal capital on the same day.
- PRO KOLEKT CREDIT MANAGEMENT SERVICES BUCURESTI S.R.L., Bukarest, Romania, specializing in other business consulting, was founded on 6 April 2007 and is 80 percent owned by PRO KOLEKT, Ljubljana and 20 percent owned by Roexpert S.R.L. Bucuresti. The nominal capital of the company is EUR 25.0 thousand. The General Manager of the company is Mr Teodor Gigea; the General Meeting of PRO KOLEKT CREDIT MANAGEMENT SERVICES BUCURESTI S.R.L is represented by the General Manager of PRO KOLEKT, Ljubljana and the Director of Roexpert S.R.L. Bucuresti. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2007 equalled EUR 20.0 thousand.
- PRO KOLEKT SOFIA EOOD, Sofia, Bulgaria, specializing in business consulting, was founded on 9 May 2007 and is wholly-owned by PRO KOLEKT, Ljubljana. The nominal capital of the company is EUR 25.0 thousand. The General Manager of the company is Ms Mariana Ikonomova; the General Meeting of PRO KOLEKT SOFIA EOOD is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2007 equalled the balance of the nominal capital on the same day.
- PRO KOLEKT d.o.o. Sarajevo, Bosnia and Herzegovina, specializing in business consulting, was founded on 13 July 2007 and is wholly-owned by PRO KOLEKT, Ljubljana. The nominal capital of the company is EUR 25.0 thousand. The General Manager of the company is Mr Vedad Tuzović; the General Meeting of PRO KOLEKT d.o.o., Sarajevo, is represented by the General Manager of PRO KOLEKT, Ljubljana. The nominal value of the equity interest owned by PRO KOLEKT, Ljubljana as at 31 December 2007 equalled the balance of the nominal capital on the same day.

PRVI FAKTOR, faktoring družba, d.o.o.

PRVI FAKTOR, faktoring družba d.o.o. (hereinafter PRVI FAKTOR) is the leading factoring company in Slovenia and has its office registered at Slovenska cesta 17, Ljubljana. The principal business activity of the company is the performance of factoring services for clients with registered offices in the Republic of Slovenia and abroad with regard to claims arising from the sale of goods and services. The company provides the following services: repayment assumption or purchasing of claims arising from the sale of goods and services with or without protection against the risk of non-payment; financing of receivables purchased; claims management; encashment and collection of claims; trading in claims; mediation and representation in factoring transactions in Slovenia and abroad.

In 2002 SID acquired a 50 percent equity interest and half of the voting rights in the company PRVI FAKTOR, the other shareholder being Nova Ljubljanska banka d.d., Ljubljana. The nominal value of the equity interest owned by SID Bank was EUR 584.2 thousand as at 31 December 2006. Acting on the decision of the General Meeting made on 13 February 2007, SID Bank paid for an increase in capital of one million euros on 21 February 2007. The ownership share of SID Bank remained unchanged after the capital increase. The nominal value of the equity interest owned by SID Bank was EUR 1.6 million as at 31 December 2007.

The company is led by the General Meeting of Shareholders and General Manager, Mr Ernest Ribič.

PRVI FAKTOR, Ljubljana, has founded and is the sole owner of four enterprises:

- PRVI FAKTOR, faktoring društvo, d.o.o., Zagreb, Croatia, specializing in factoring. The company was founded on 17 March 2003; its nominal capital is EUR 2.6 million. The General Manager of the company is Mr Tomaž Kačar; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.

- PRVI FAKTOR, faktoring d.o.o., Beograd, Serbia, specializing in factoring, was founded on 24 February 2005. The nominal capital of the company is EUR 1.3 million. The General Manager of the company is Mr Dmitar Polovina; the General Meeting is made up of the representatives from PRVI FAKTOR, Ljubljana.
- PRVI FAKTOR d.o.o., financijski inženiring, Sarajevo, Bosnia and Herzegovina, specializing in other types of financial intermediation, was founded on 27 February 2006. The nominal capital of the company is EUR 451.0 thousand. The General Manager of the company is Mr Nedim Rizvanović; the General Meeting consists of representatives from PRVI FAKTOR, Ljubljana.
- On 22 September 2006, PRVI FAKTOR d.o.o., Skopje was entered into the Register of Companies; its nominal capital is EUR 5.0 thousand. The company has not begun operating yet.

The nominal value of the equity interests owned by PRVI FAKTOR, Ljubljana in the companies of the PRVI FAKTOR Group as at 31 December 2007 equalled the balance of the nominal capital of individual enterprises on the same day.

Centre for International Cooperation and Development

On 28 December 2006, SID Bank signed the second Amendment to the Agreement Concerning the Reorganization of the Centre for International Cooperation and Development (hereinafter CMSR), thus making SID bank a co-founder of CMSR with whom it had worked closely prior to the signing. The other cofounder is the Republic of Slovenia. The Centre will continue to pursue its existing activities, namely macroeconomic and political analyses of various countries, country risk assessments and similar macroeconomic and other analyses and public relations work, while also focusing inter alia on staff training in the area of international development cooperation. In 2007 CMSR began performing technical and operational tasks linked to international development cooperation on the basis of an authorisation issued by the Government of the Republic of Slovenia.

The CMSR management bodies are Director and Council of the Centre. The Centre is led by Mr Gašper Jež, temporarily appointed Acting Director. The CMSR Council is made up of seven members; SID Bank's representatives sitting on the Council are Mag. Sibil Svilan, who is also the President of the Council, and Mr Bojan Pecher.

4. International Economic Environment and Slovenian Economy

World economy in 2007

Economic growth in the European Union slowed towards the end of 2007 and is expected to slow down further in 2008. According to first figures published by Eurostat, real GDP growth rose by 0.5 percent in the last quarter of the year in the EU and 0.4 percent in the euro area, pushing the total figure for 2007 to 2.6 percent, a slight drop from 2.8 percent posted in 2006. For the year, GDP grew 2.9 percent, 0.1 percent less than in 2006. Besides lower exports, a main cause of the slowdown in economic growth was the decline in private consumption driven primarily by soaring food and energy prices.

Sound economic growth was shared by the old and new EU member states. Germany, as one of Slovenia's main trading partners, saw moderate growth in the fourth quarter of the year while in Austria economic growth maintained a sound 3.4 percent throughout the year. According to first estimates, U.S. economic growth came to 2.2 percent (down significantly from 3.3 percent in 2006), and was 2.1 percent in Japan (2.2 percent in 2006): Mainly on account of strong domestic demand, GDP growth in Russia climbed to a high 8.1 percent according to first estimates.

In the countries of former Yugoslavia, economic growth trends were favourable with the annual figures above the 2006 rates. Croatia's economic growth reached 5.6 percent in 2007 and was primarily driven by private consumption. Private consumption, however, was on the decrease throughout the year and the downward trend associated with it was felt across the Croatian economy. The growth rate in Bosnia and Herzegovina was estimated to 5.5 percent. A slowdown in loan volume growth and sector wage limitations weakened private consumption, one of the major drivers of GDP growth in 2006; on the other hand, domestic investment rose significantly, largely on account of large infrastructure projects, and foreign direct investment is expected to boost exports growth in the future. With 4.4 percent the economic growth in Macedonia was lowest of all the countries of former Yugoslavia. Serbia's economy rose at a rate of 7.5 percent in 2007, 1.8 percentage points above the 2006 figure.

The US and German stock indices increased at an annual rate of 3.6 and 20.7 percent, respectively, whereas the Japanese stock exchange index dropped 11.8 percent in 2007. The crisis that hit the world capital markets in the fourth quarter of the year kept the yield of German state bonds below the key interest rates set by the European Central Bank. The average yield of German state bonds with a 5-year maturity period was 4.28 percent in the first half of the year and 4.15 percent in the second half of 2007.

Slovenian economy in 2007

According to first estimates from the Statistical Office of the Republic of Slovenia, real GDP growth reached 6.1 percent year-on-year, the highest rate in the last 17 years. Growth was vigorous in the first half of the year but calmed down in the last quarter of 2007. The rise was driven largely high exports and hefty investment. GDP at current prices amounted to EUR 33,542 million or EUR 15,167 per capita.

Exports of goods and services remained the key driver of GDP growth for the fourth year in a row. Exports were up 13.0 percent in real terms, contributing 8.8 percentage points to Slovenia's economic growth. The quarterly trend in exports was similar to the trend observed in most other categories: fast growth in the first three quarters was followed by a slowdown in the fourth quarter of the year.

Imports rose slightly faster than exports (14.1 percent year-on-year); as a result, foreign trade balance had a dampening effect on economic growth (down by 0.9 percentage points). Its impact on GDP growth was positive in the first and fourth quarters of the year and negative in the second and third.

According to preliminary data from the Bank of Slovenia, Slovenia's deficit in the current account of the balance of payments totalled EUR 1,621.5 million and was up from the EUR 856.5 million in 2006, reaching the highest value recorded since the country's independence. The increase was linked to significantly higher deficits recorded in the balance of trade and the balance of factor incomes. The current transfers deficit widened as well, largely as a result of net transfers from the budget of the Republic of Slovenia to the EU budget. On the other hand, services trade surplus increased further and had a positive effect on the current account balance.

In 2007 current account balance was only affected positively by the surplus in the services subtotal amounting to EUR 1,024.7 million. The subtotals of goods, incomes and transfers, however, recorded a deficit which amounted to EUR 1,624.1 million in the balance of trade, EUR 725.5 million in the balance of incomes and EUR 296.6 million in current transfers balance. The deficit in the current account of the balance of payments was up year-on-year by 764.9 million.

In 2007 trade deficit went up EUR 473.0 million from the year 2006. Import to export ratio was 92.4 percent, a slight drop from 93.9 percent in 2006.

The goods and services trade deficit to the EU countries (EU27) was EUR 2,811.6 million in the first eleven months of 2007, posting a year-on-year increase of EUR 138.0 million. The deficit in trade with EFTA countries shifted to surplus of EUR 20.2 million. Trade with the former Soviet Union countries showed a rise in surplus of EUR 44.1. million totalling EUR 446.2 million and the surplus in trade with the countries of former Yugoslavia increased EUR 109.3 million to reach EUR 1,377.0 million. The deficit in trade with the rest of the world rose by EUR 590.9 million to EUR 792.6 million. Slovenia's trade deficit with Austria, Italy and Germany showed a year-on-year rise in the period January-November 2007. The trade surplus with Croatia remained unchanged but the trade surplus with France rose.

2007 saw the surplus in services trade reach EUR 1,024.7 million, a rise of EUR 159.0 million on the year 2006, with travel as the most important item on both the export and import side. Travel accounted for 39.4 percent of total services on the export side and for 26.2 percent on the import side. In the balance of trade in services, travel was followed in importance by transport (30.5 percent of total export and 23.6 percent of total import of services in 2007) and other business services (18.5 percent of total export and 26.4 percent of total import of services in 2007).

In 2007 Slovenia's capital and financial account recorded EUR 2,080.3 million in net inflow which was up from EUR 1.050.3 million in 2006. Net capital inflow, excluding international cash reserves, amounted to EUR 2,002.6 million. In addition, the accounts recorded unidentified net outflow of EUR 458.8 million, which is a statistical error. In 2007 the highest net capital inflow item was cash and deposits totalling EUR 2,282.5 million. In that amount, the highest net transfer was recorded by the Bank of Slovenia (EUR 2,671.8 million, largely on account of its net position to the Eurosystem). Loans made up EUR 1.955.0 million in net inflow, of which EUR 1,647.9 million came from commercial banks. The major net outflow items (excluding reserves) were portfolio investment (EUR 2,268.8 million), cash and deposits from other sectors (EUR 700.9 million) and financial derivatives (EUR 21.8 million).

Favourable economic trends throughout the year contributed to better employment figures. According to national accounts estimates, total employment in 2007 was 959.6 thousand persons, up 2.7 percent from 2006. The slowdown in economic growth in the fourth quarter of the year did not affect employment, with employment growth figures highest in that period (3.0 percent). In 2007 the growth and total employment figures followed the same trend as GDP: the number of people employed was the highest since 1991, as was the annual growth rate. Employment increased most in construction (10.8 percent), transport (6.4 percent) and business services (6.3 percent). For the first time after 2001 it also went up in the processing industry (0.7 percent).

On 1 January 2007 Slovenia, as the first of the new EU member states, entered the European Monetary Union and introduced the euro as its domestic currency. The changeover had a marked effect on Slovenia's economy and banking sector. With the introduction of the euro, the exchange rate risk of Slovenian banks became insignificant, lowering directly, from the open foreign currency position of banks, and indirectly, due to lower exposure of the non-banking sector.

Return on equity for banks climbed 16.3 percent in 2007. The financial intermediation margin neared 3.8 percent in 2007, with non-interest margin amounting to 1.6 percent and interest margin reaching 2.1 percent. In 2007 banks improved their ratio of operating costs to non-interest income and reduced their share of operating costs in gross operating income. As operating costs growth failed to keep up with the growth in total assets, this led to a decrease in the share of operating costs in total assets.

2007 also saw a further increase in both active and passive interest rates. The increase was more sizeable than in 2006 and affected both the average active interest rates, which went up 0.68 percentage points to 5.95 percent, and the average passive interest rates, which rose 1.03 percentage points to 3.66 percent. With the passive interest rates rising faster than the active rates, the interest rate gap narrowed from 2.64 to 2.29 percentage points.

The volume of loans extended by banks to the non-banking sector rose again in 2007. The trend was largely attributable to a rise in borrowing undertaken by companies and financial institutions. Given favourable economic and borrowing conditions, loan volumes of these organisations rose by just over 36.8 percent (up from 26.8 percent in 2006). The growth rate of loans to individuals was just over a modest 1 percentage point. Net borrowing from Slovenia's non-banking sectors reached an all-time high, amounting to EUR 6,551.9 million, pushing more than three thirds above the 2006 figure.

Borrowing abroad is losing in importance as a form of corporate financing. In 2006 it accounted for nearly 20 percent of the total net corporate borrowing, but in 2007 the figure dropped to a low 7.9 percent. Loans obtained by Slovenian companies abroad in 2007 totalled EUR 449.7 million, a year-on-year drop of nearly 40 percent. On the other hand, foreign borrowing of the banks strengthened again as strong savings growth in itself was not sufficient to ensure normal funding of the banks' credit expansion. In foreign markets Slovenian banks obtained credits totalling EUR 3,354.5 million, which is 1.3-times more than in the year 2006. The first half of the year was dominated by long-term loans, but due to the international financial crisis and a drop in consumer confidence in the inter-bank market, the focus shifted to short-term loans in the second half of the year.

Witnessing its all-time high, the Ljubljana Stock Exchange (LJSE) benchmark index SBI20 rose 78.1 percent in 2007, but the forecasts for 2008 are rather grim. The 2006 growth was driven by high demand for securities linked to the supply of derivative financial instruments associated with the LJSE shares, to increased interest in management buy-outs and sound business results of listed companies. In the period January-August 2007, BSI20 climbed 91.8 percent but fell nearly 10 percent in the period September-November 2007 alone, which corresponded to the developments in international capital markets resulting from the international financial crisis. In December 2007, trade in securities was given a boost by the state of Slovenia starting phase one of privatisation of one of the state-owned banks (Nova KBM) and, in part, by liquidity measures undertaken by central banks of several important countries to mitigate the effects of the financial crisis.

Slovenia's consumer price index rose 5.6 percent in 2007, doubling its 2006 rate. The year-on-year surge in inflation (rising from 2.8 percent to 5.6 percent in 2007) was largely due to faster growth in food prices and liquid fuels for transport and heating but also as a result of the rounding-up of prices upon the changeover to the euro at the beginning of 2007. The average annual inflation rate, measured with Harmonised Indices of Consumer Prices used as a harmonisation criterion, was 3.8 percent in 2007, up significantly from 2.5 percent in 2006.

Influences on SID Bank operations

- **Financing of international business transactions**

The above business-related developments in the financial and real sectors and their impact on economic trends had a marked influence on SID Bank operations in terms of pre-shipment and post-shipment financing of international business transactions, with the majority of funds intended for financing of international business transactions through commercial banks and for investments of Slovenian companies abroad. In the first year following the introduction of the euro, most new placements were made in the domestic currency.

As the conditions in the financial markets were extremely favourable in the first half of the year 2007, pricing pressure from commercial banks and companies intensified in this period, which led to a drop in interest rates and also affected interest-generated income. The trend was not only felt in the Slovenian market; on the contrary, continued pressure for lower interest rates on borrowings was also evident in new EU member states and in those countries applying for EU membership (Bulgaria, Romania, Croatia, Serbia, Montenegro) and in the Russian Federation, where it was driven by higher oil prices, decrease in state indebtedness and investment growth.

In the second half of the year, however, market trends and circumstances changed dramatically. Conditions in the (international) financial markets worsened markedly, making access to sources of financing, in particular long-term, more difficult and more expensive also in Slovenia. Despite the volatility and uncertainty that had swept the market, SID Bank increased its interest income in the field of financing. In this respect, it needs to be considered that a considerable majority of the Bank's euro-denominated credit portfolio is invested at variable interest rate made up of the Euribor reference interest rate and a margin, with Euribor experiencing constant growth in particular in the second half of 2007.

Increased trade in goods caused a rise in the volume of financing extended to non-residents both indirectly, through commercial banks, and in direct terms. The increased presence of Slovenian companies in the markets of Central and Eastern Europe in 2007 is evident in the growing demand for direct funding for projects in foreign countries by Slovenian investors and exporters. This is provided mainly through the direct funding of Slovenian investors or through funding extended to foreign buyers of Slovenian services and goods. SID Bank supports such projects and international business transactions in cooperation with commercial banks (through syndicated loans, or club deals) or independently so strengthening its relationships with Slovenian and international commercial banks. At the end of 2007, these deals took up a quarter of the overall credit portfolio of SID Bank.

- **Treasury transactions**

After the changeover to the euro, the Treasury managed the Bank's excess liquidity in euro-denominated instruments. With regard to securities, the Treasury invested in both fixed-income and variable-income instruments. The changes in the currency markets had no marked effect on SID Bank as its open foreign currency position was cut back. Most of the SID Bank's balance sheet was denominated in euros as the country’s domestic currency.

No significant exposure to changed European interest rates occurred as a result of the Bank's balance sheet composition. Variable-rate investments and variable-rate liabilities linked to Euribor take up a significant portion of assets and liabilities, respectively.

Owing to its year-round excess liquidity position, the Treasury only took out borrowing without state guarantees to a limited extent, as its main focus was management of excess liquidity.

The prices of securities and the reduction in key interest rates set by central banks worldwide were strongly affected in 2007 by the US crisis of subprime loans used to purchase real estate which began in August 2007 and persisted until the end of the year. Through investment banks, funds, insurance companies and other securities' investors the crisis spread across the world. SID Bank held no subprime loans in its portfolio and was only exposed, to a low extent, to the US and European banks from purchasing their bonds.

- **Insurance on behalf and for the account of the state**

In 2007 the largest part of SID Bank's medium-term export credit insurance provided on behalf and for the account of the state was taken up by export transactions to the markets of the former Soviet Union, namely exports of Slovenian companies to Russia and Ukraine.

Favourable macroeconomic conditions in Russia, political stability, high demand and export growth caused by a strong and stable domestic currency, reliable payment discipline by Russian buyers, which most Slovenian exporters report to have improved significantly over the last three years, and strong domestic demand as the driving force behind economic growth were the key factors generating outstanding demand for the insurance of exports in Russia which, in terms of the volume of business insured, remains the most important SID Bank market for medium-term export credit insurance. Transactions insured chiefly cover construction projects and the exports of high technology and other equipment.

Due to recent developments regarding the application of nuclear technology in Iran and the subsequent international reaction to the issue, the Intervention Group of SID Bank, having discussed the Iranian situation at several meetings, adopted different insurance policies towards Iran which in most cases agreed to extend the coverage of export transactions and insurance coverage to the country on a case-by-case basis.

The volume of investment insurance was largest to the countries of former Yugoslavia, namely Serbia, which was followed by Bosnia and Herzegovina, Macedonia and Montenegro. Investments insured in the major markets largely refer to the trade and financial sectors but in Belarus and Iran they are linked to motor vehicle manufacturing and automotive industry.

As a result of the current macroeconomic conditions and certain economic indicators expressive of a post-war situation and years of boycott against the then Serbia and Montenegro, economic growth in the countries of former Yugoslavia is vital for their further economic development. All these countries show satisfactory economic growth and growth of exports to foreign markets, and their state budgets include sufficient funds to cover liabilities abroad. Thanks to conservative monetary policies and the international impact, the currencies of these countries are stable. Furthermore, these countries reveal a stable and strong demand for inward investment reflected in a permanent inflow of investment funding from Slovenia and other countries, a trend to which SID Bank responded closely by insuring Slovenian investments abroad.

Influences on the operations of other companies within the SID Bank Group

- **PKZ**

Owing to the characteristics of credit insurance, national economic conditions in Slovenia and in the markets where PKZ clients perform their business activities have a considerable influence on the operations of PKZ. Among the most important economic indicators are economic growth, the inflation rate and the export and import of products and services. These indicators can significantly affect the volume of transactions which can be insured and also, potentially, the business operations of PKZ. This is because economic conditions are normally the major contributor to the PKZ's loss ratio.

PKZ underwrites risks in a number of countries. However, its operations are most sensitive to the economic situation in the countries that form the largest part of the total PKZ portfolio in terms of premiums, business volume or exposure. According to the above-mentioned criteria, the main PKZ markets include Slovenia, Germany, Croatia, Italy, Russia, Serbia, Bosnia and Herzegovina, and Austria.

Positive economic growth and particularly high export growth in the Slovenian economy had a favourable effect on increased PKZ business volume in 2007. Lower number of bankruptcies led to a more favourable loss ratio in insuring domestic sales.

Moreover, the developments in the German market stimulated PKZ's business both in terms of insurance volume and loss ratio. As a result of high exports growth in Croatia, PKZ recognized and acted upon an opportunity to increase the volume of insured exports of Slovenian companies to the market. With the country's payment performance worsening, the demand for insurance of exports to Croatia rose sharply, but has not had any effect on the loss ratio. The growth rates of Russian imports are high, in part also thanks to Slovenian exporters and PKZ through provision of insurance of sales to this market. High growth of business insured to the Russian market began in 2006 and the trend was preserved throughout the year 2007. Increase in the demand for insurance in the Italian market was also affected by poor payment performance which did boost insurance demand but has so far not led to a low loss ratio. In the Serbian market, the number of bankruptcies is decreasing; nevertheless, Slovenian exporters are aware of the inherent risk which further enhances the demand for insurance of Slovenian exports transactions to Serbia. As a result of better economic situation in Bosnia and Herzegovina, Slovenian exports to the country went up and PKZ used this opportunity to increase its business insured to the country. Favourable economic situation in Austria had a positive effect on the growth of business insured by PKZ. In terms of PKZ business, Austria recorded the highest growth of all EU member states.

- **PRO KOLEKT Group**

Debt collection is directly influenced by the conditions governing national economies, evident mainly in the liquidity situation and the likelihood of protracted default. In addition to operating in Slovenia and its neighbouring countries, PRO KOLEKT has established a network of debt collection agencies from over 100 states. Nevertheless, the majority of its operations are limited to markets which import the bulk of Slovenian goods and services and most business partners of Slovenian companies. So far the number of debt collection cases dealt with by PRO KOLEKT has been highest with regard to Slovenia, Germany, Italy and the South East Europe (Croatia, Serbia, Bosnia and Herzegovina, Romania and Bulgaria where it has already set up subsidiaries). The conditions in these markets, taking up 76 percent of all collection cases dealt with by PRO KOLEKT, are crucial for the operation of the company and the PRO KOLEKT Group. The developments in Serbia and Kosovo will certainly have an effect on the debt collection activities in this part of Europe.

- **PRVI FAKTOR Group**

The conditions in Slovenia's financial market have had a favourable effect on the factoring industry, as high economic growth was also reflected in the higher volume of receivables acquired by PRVI FAKTOR, Ljubljana. Successful performance of the PRVI FAKTOR Group depends heavily on the situations in markets where the subsidiaries of PRVI FAKTOR, Ljubljana are based.

Despite increasing competition made even harsher through establishment of new factoring agencies, the conditions in Croatia and Serbia remained favourable for factoring services. In Bosnia and Herzegovina a lot of attention was paid to educating the market, which is already bringing results.

5. Development Strategy of SID Bank

The future role and position of SID Bank are defined in the Action Strategy of SID Bank for the Period 2007–2010.

Mission

The mission of SID Bank is to develop, provide and promote innovative, public and long-term financial services designed to supplement financial markets for the sustainable development of Slovenia.

Vision

Through dedication to its mission, the acquisition of new knowledge and skills and the development of optimal solutions tailored to the needs of Slovenian companies and banks, SID Bank will become a main promotional institution by the year 2010 whose comprehensive range of services complementary to the financial market will continue to be an important factor in Slovenia's economic growth. With this goal in mind, the Bank intends to increase its total assets by at least 100 percent, while at the same time maintaining its financial stability and bringing its share of new activities (in the total value of business) to a minimum of 15 per cent.

By assisting clients in all phases of their business transactions, supporting development projects, by ensuring safety in internationalization of operations and providing all modern financial services in one place, SID Bank will encourage Slovenian companies to exploit the opportunities opening up in the international economic and development cooperation. The Bank will strive to achieve these objectives largely through the provision of long-term financing and insurance facilities.

Transparent, efficient and socially responsible SID Bank operations sensitive to the needs of its employees and clients, in particular SMEs, and implementation of the objectives of Slovenia's development strategy will be the framework on which SID Bank will base its efforts – to be seen as an effective and valued development partner.

Strategy

SID Bank will continue its activities in the field of financing international economic cooperation and further development of the export insurance and financing system in the Republic of Slovenia. It will also gradually transform from a company specializing in promotion of pre- and post-shipment insurance and financing into a bank which will, in addition to its existing range of services, pursue a comprehensive range of development and promotional activities complementary to financial markets.

In export insurance against non-marketable risks SID bank will continue to perform its role as an authorised national export credit agency (ECA), striving to ensure competitive and safe business for Slovenian companies in international markets.

In accordance with its new orientation and legal framework, the Bank will continue to promote international economic cooperation and the internationalization of Slovenia's economy, striving to achieve:

- further improvement of financing and insurance conditions for the Slovenian economy as well as better cooperation with commercial banks, bank consortia and other financial institutions in facilitating a variety of forms and methods of financing and insuring business operations of these enterprises and international business cooperation,
- the active development of long-term financing for Slovenian exporters, in particular medium-term and long-term financing of preparatory activities for international business transactions, financing of foreign buyers/banks and investments abroad;
- the financing and insurance of SMEs' operations and development as a contribution to the faster inclusion of SMEs into the international economic environment and thus faster development of this economic segment in the Republic of Slovenia;
- support for the development of economic entities for faster inclusion into international economic transactions and the achievement of a higher rate of internationalization with financial support for research, development, environmental protection, sustainable development, employment, education and training in Slovenian and foreign markets;
- the introduction of new financing facilities aimed at implementing more effective development and export activities in the economic sector, in particular international development cooperation, and the advancement of other options enabling the provision of new services supplementary to financial markets.

Through the development of innovative solutions tailor-made for the needs of Slovenian companies and banks, SID Bank will establish itself as one of Slovenia's main public promotional institutions and will, thanks to its comprehensive range of services complementary to the financial market, continue to be seen as an important growth factor in Slovenia's economy and sustainable development.

6. Review of SID Bank Operations in 2007

6.1. Financial review of SID Bank operations

In 2007 SID Bank achieved its planned business objectives and generated positive results in both principal business segments: financing and issue of guarantees for international business transactions.

Income statement summary

In EUR thousand	2005	2006	**2007**
Net interest	7,504	7,499	**8,737**
Net non-interest income	3,131	2,521	**3,834**
Labour, general and administrative costs	(3,951)	(4,767)	**(5,240)**
Depreciation	(407)	(432)	**(562)**
Impairments and provisions	4,271	(1,359)	**(2,678)**
Pre-tax profit	**10,547**	**3,462**	**4,091**
Corporate income tax	(2,606)	(905)	**(475)**
Net profit	**7,941**	**2,557**	**3,616**

In 2007 pre-tax profit amounted to EUR 4.1 million, recording a rise of 18.2 percent year-on-year.

Net interest totalled EUR 8.7 million and was up 16.5 percent from 2006. As a result of strong growth in loans and an increase in Euribor, interest income rose 74.0 percent over the year 2006, totalling EUR 47.5 million. On the other hand, interest expense climbed 95.7 percent, pushing the figure up to EUR 38.8 million.

Net non-interest income amounted to EUR 3.8 million, the 52.1 percent increase from the 2006 levels attributable largely to higher realized net fees and commissions and dividends and lower foreign exchange losses. Income from net fees and commissions related to financing, guarantees and treasury transactions went up 84.7 percent year-on-year, accounting for EUR 0.47 million of the total net non-interest income. Income from dividends paid by SID Bank's subsidiaries PKZ and PRVI FAKTOR, Ljubljana was EUR 1.0 million. Income from the reimbursement SID Bank receives from the state subject to the Agreement on the regulation of mutual relationships concerning implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions amounted to EUR 2.1 million, as in 2006.

In 2007 operating costs totalled EUR 5.8 million and were 11.6 percent up from 2006. In the structure of operating costs, labour costs accounted for 59.4 percent, costs of services 28.7 percent, depreciation 9.7 percent and cost of materials 2.2 percent. The percentage of operating costs as of assets lowered from 0.71 percent in 2006 to 0.62 percent in 2007.

Net expenses from impairments and provisions totalled EUR 2.7 million (2006: EUR 1.4 million).

Balance sheet summary

In EUR thousand	31.12.2005	31.12.2006	**31.12.2007**
Bank deposits	0	0	**26,205**
Deposits from non-bank sectors	1,639	42	**32,880**
Loans of banks	516,764	694,352	**1,069,125**
Debt securities	0	0	**8,859**
Provisions	2,983	1,742	**883**
Other liabilities	4,808	5,943	**3,211**
Equity	103,283	104,398	**107,554**
Total liabilities	**629,477**	**806,477**	**1,248,717**
Contingency reserves	93,131	102,704	**107,278**
IREP	0	1,461	**5,395**
Impairments of financial assets measured by amortised cost and provisions	12,868	12,409	**15,647**
Volume of off-balance-sheet business	297,673	256,074	**176,304**

As at 31 December 2007, total assets of SID Bank stood at EUR 1,248.7 million, showing a year-on-year increase of 54.8 percent. Contingency reserves for insurance carried out on behalf and for the account of the state and the corresponding contingent liabilities rose by 4.5 percent in 2007 to EUR 107.3 million.

With the volume of borrowing backed up by the guarantee of the Republic of Slovenia increasing, bank loans rose 54.0 percent to reach EUR 1,069.1 million, or 85.6 percent of total liabilities. At the end of 2007, the Bank's equity stood at EUR 107.6 million, and had increased by 3.0 percent through generated net profit.

In EUR thousand	31.12.2005	31.12.2006	**31.12.2007**
Available-for-sale financial assets	26,851	35,411	**40,728**
Loans to banks	450,183	594,174	**915,674**
Loans to clients other than banks	142,245	164,343	**276,822**
Tangible fixed assets and intangible assets	3,208	5,761	**5,691**
Long-term investments in equity of SID Bank Group companies	6,304	6,322	**7,712**
Other receivables and assets	686	466	**2,090**
Total assets	**629,477**	**806,477**	**1,248,717**
Investments of contingency reserves	93,131	102,704	**107,278**
Investments from IREP	-	1,461	**5,395**

In 2007 growth of total assets can again be attributed to intensive financing of international business transactions. Loans to banks increased by 54.1 percent to EUR 915.7 million. There was also a 68.4 percent increase in loans to non-bank clients, making up EUR 276.8 million. In 2007 SID Bank held debt securities in the amount of EUR 40.7 million, posting a year-on-year increase of 15.0 percent.

Key figures

	2005	2006	**2007**
Shares			
- Number of shareholders	87	87	**85**
- Number of shares	932,354	932,354	**932,354**
-Nominal value per share or the corresponding item share value as of nominal capital (in EUR)	41.74	41.73	**96.10**
- Book value of a share (in EUR)	110.78	114.23	**117.69**
Selected indicators			
Capital:			
*- Capital adequacy**	26.4%	20.7%	**12.8%**
Quality assets of on-balance sheet and contingent liabilities:			
*- Impairments of financial assets measured by amortised cost, and provisions for contingent liabilities/classified on-balance-sheet items and classified off-balance-sheet items***	1.95%	1.85%	**1.36%**
Profitability:			
- Interest margin	1.35%	1.03%	**0.93%**
- Financial intermediation margin	1.91%	1.37%	**1.34%**
- Return on assets before tax	1.90%	0.47%	**0.44%**
- Return on equity before tax	10.61%	3.32%	**4.21%**
- Return on equity after tax	7.99%	2.45%	**3.72%**
Operating costs:			
- Operating costs / average assets	0.78%	0.71%	**0.62%**
Liquidity:			
- Liquid assets / short-term deposits to non-bank sector	0.01%	0.03%	**1.42%**
- Liquid assets / average assets	0.00%	0.00%	**0.02%**
Number of employees	62	68	**69**

* The computations consider investments from own SID Bank assets and investments from sources backed by the guarantees of the Republic of Slovenia.

Events after the balance-sheet date

After the balance sheet date, there were no events which could be said to have had a significant effect on the financial statements and performance of SID Bank.

6.2. Financing and Guarantees

In 2007 SID Bank's main activity in the field of financing was pre-and post-shipment financing of international business transactions, mainly provided under indirect exporter financing schemes, through banks and other financial institutions, in particular by refinancing loans for pre- and post-shipment financing of international business transactions and cofinancing international business transactions. The financing facilities provided by SID Bank included loans, purchase of receivables, project financing, participation in syndicated loans, funded and unfunded risk sharing.

In providing financing, SID Bank covered all phases of international business trade, namely:

- Pre-shipment financing,
- Post-shipment financing, by providing funds to the Slovenian exporters or by providing funds to foreign buyers of Slovenian goods and services, or to their banks,
- Financing for investments of Slovenian companies abroad (e.g. plant construction, purchase of a company, increase in capital),
- Development of internationalization in various areas of business transactions,
- Development of SMEs.

The Bank's financing facilities have significantly contributed to the increase in the capacity of commercial banks and exporters for pre-and post-shipment financing of international business transactions.

In conducting the above mentioned services, SID Bank actively co-operates with majority of Slovenian banks. In 2007 favourable trends concerning the internationalization of Slovenian economy led to an increase in the demand for SID Bank funding, mostly in euros, both from the banking and corporate sectors.

SID Bank's major sources of funds for pre-and post-shipment financing of international business transactions are:

- Own funds of SID Bank
- Funds obtained under the guarantee of the Republic of Slovenia,
- Contingency reserves.

The loan portfolio structure follows the structure of funds, with investments from funds obtained under the guarantee of the Republic of Slovenia holding the largest share.

In 2007 SID Bank paid special attention to securing favourable long-term financing for SMEs. The Bank offered them favourable long-term funding through commercial banks and in the framework of its facilities generated EUR 103 million in refinanced transactions, thereby positively affecting the employment by and support to the SMEs based in less developed regions of Slovenia.

In the continuation of the report SID Bank's financing operations are presented, taking due account of investments from own funds and from funds obtained under the guarantee of the Republic of Slovenia.

Business results in the field of financing

- **Financing 2005-2007**

In EUR million	2005	2006	**2007**
Outstanding as at 31 December	566.1	703.9	**1,164.4**

The outstanding amount of financing as end of 2007 was EUR 1,164.4 million and went up by 65.4 percent compared to 2006, when it was EUR 703.9 million. The share of financing portfolio in total assets reached 93.2 percent.

The growth rate of SID Bank financing was slightly higher than the annual growth of all loans extended to the Slovenian corporate sector (36.9 percent), with the share of SID Bank financing in all loans extended to the Slovenian corporate sector in 2007 (direct and indirect) reaching 6.1 percent. The growth rate of SID Bank financing outpaced the growth rate of Slovenian exports, which according to first estimates from the Statistical Office of the Republic of Slovenia saw a 13.0 percent increase in the year 2007.

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Portfolio structure

- **By maturity**

The maturity structure of SID Bank's loan portfolio confirms the orientation of SID Bank towards long-term pre-shipment and post-shipment financing of international business transactions with the share of long-term financing amounting to 89.3 percent of SID Bank's loan portfolio at the end of 2007, increased by 2.4 percentage points from the 2006 figure.

SID Bank Financing: Outstanding amounts by maturity

In EUR million	2005	2006	**2007**
Long-term	491.8	620.0	**1,039.8**
Short-term	74.3	83.9	**124.6**
Total	566.1	703.9	**1,164.4**

The sizeable growth of 67.7 percent in long-term loans was largely due to high investment activity in the Slovenian economy and the related high growth of project (re)financing and strategic investments of Slovenian companies abroad. Short-term loans, taking up a good 10 percent of the loan portfolio, posted a 48.5 percent rise year-on-year, mainly as a result of the conditions in financial markets prevailing in the last quarter of 2007.

- **By currency**

SID Bank's domestic currency loan portfolio reached EUR 1,142.4 million at the end of 2007, amounting to 98.1 percent of the Bank's total loan portfolio. The increase in domestic currency loans is mainly attributable to the adoption of the euro as Slovenia's domestic currency in 2007.
As a result, foreign currency loans dropped, with the volume of loans extended in foreign currency, mainly US dollars, ending the year at EUR 22.0 million.

- **By borrower**

In 2007 commercial banks remained the most important SID Bank's partner in pre- and post-shipment financing of international business transactions (including outward investments), their share in SID Bank loan portfolio reaching 76.2 percent at the end of the year. The demand for direct financing of projects of Slovenian exporters abroad, for pre-shipment financing and support to internationalization of the Slovenian economy rose steadily throughout 2007, showing a 72.9 percent year-on-year increase for loans extended to customers other than banks.

Despite a significant growth in loans to customers other than banks, this segment represented 23.8 percent of the total loan portfolio in 2007. The share of loans to non-residents in the SID Bank loan portfolio remains a low 11.7 percent, as most placements for support to realization of international business transactions were performed indirectly, through commercial banks. The share of loans to non-residents, however, went up 4.3 percentage points from 2006.

- **By risk**

The sizeable increase in the volume of direct financing extended to Slovenian exporters, their buyers and investors abroad in 2007 did not affect high quality of the Bank's credit portfolio as the assets classified in classes lower than A and B only take up 2.8 percent of SID Bank's loan portfolio. For more information on portfolio risk and portfolio classification in accordance with IFRS see Point 6.8.

Income from SID Bank's financing

In 2007 SID Bank generated EUR 40.7 million in interest income from financing. Income from fees and commissions totalled EUR 286.4 thousand. As a result of the gradual year-round growth in Euribor interest rates in the European market and a sound increase in financing volumes, the end-of-the-year figures were well above the planned objectives.

Guarantees

Guarantees are a welcome supplement to the range of financing and insurance services SID Bank provides for Slovenian and foreign beneficiaries who consider them a first-class, high-quality protection instrument against counter-party risks related to contractual obligations.

In issuing guarantees, SID Bank is focused on providing support for the business operations of Slovenian companies, namely:

- Post-shipment financing of international business transactions,
- Pre-shipment financing of international business transactions,
- Internationalization of operations, presence in emerging markets and faster adaptation and inclusion into international business transactions.

SID Bank uses the following forms of guarantee:

- Service guarantees,
- Payment guarantees, and
- Unfunded risk sharing.

Business results in the field of guarantees 2005-2007

In EUR million	2005	2006	**2007**
Volume of issued guarantees	46.2	44.2	**62.3**
Outstanding as at 31 December	46.9	36.0	**52.5**

The 45.2 percent rise in the volume of guarantees came about as a result of increased assumption of risk arising from risks related to pre-shipment and post-shipment financing of international business transactions of Slovenian companies. The volume of service and payment guarantees maintained its 2006 level.

The quality of SID Bank's guarantee portfolio was high in 2007, with all guarantee investments rated A or B. For more information on portfolio risk and portfolio classification in accordance with IFRS see Point 6.8.

New developments in 2007 concerning Loans and Guarantees

With a view to introducing new products and services concerning the support to pre- and post-shipment financing of international business transactions, development financing and guarantees, Loans and Guarantees department carried out the following activities in 2007:

- Diversified existing and identified appropriate new products (schemes for financing the internationalisation of SMEs, framework loans for pre- and post-shipment financing of international business transactions provided through business units of banks),
- Carried out promotion of existing and new SID Bank's products and services, e.g. informed existing and potential clients (banks, other financial institutions, exporters, investors) on the current and planned services provided by SID Bank, thereby directly identifying the needs of the Slovenian economy for certain products and services,
- Took a pro-active approach to structuring appropriate solutions for support to pre- and post-shipment financing of international business transactions, including continued introduction of certain complex financing facilities (e.g. project financing),
- Increased the number and value of SID Bank-funded complex projects and investments of Slovenian companies abroad,
- Provided expert consulting to create value added in pre- and post-shipment financing of international business transactions for internationalization of companies,
- Further strengthened its cooperation in exchange of information, expertise, advice and experience through membership in international organisations (e.g. EAPB, ISLTC …) and by actively cooperating with Slovenian and foreign institutions such as SPS, GZS, JAPTI, EIB, KfW, and CEB.
- Proceeded with the preparations for launching onto the market the products and services of development banking, namely participation in subordinated loans to promote development of SMEs and internationalization of the economy, long-term funds for mortgage loans of commercial banks, long-term funds for municipal loans of commercial banks and for direct financing of municipalities and regions, framework credit lines with foreign banks for support to exports, introduction of international development cooperation instruments into suitable export credits, and guarantee schemes for promoting the internationalization of SMEs, and preparation of realization plans by new products.

6.3. Borrowing

In compliance with the Act Governing Financing and Insurance of International Business Transactions (ZZFMGP), SID Bank as an authorised institution strives to obtain favourable long-term sources in international markets under state guarantees and utilises these sources to support the internationalization of the Slovenian economy, that is pre- and post-shipment financing of international business transactions.

In conducting borrowing operations, SID Bank focuses on selecting flexible borrowing instruments that can be fully tailored to meet various customers' needs. SID Bank has a diversified portfolio of borrowings, funds obtained varying in maturity, size and the dynamics of disbursements. Pursuant to the ZZFMGP the Bank aims to obtain long-term sources of funding with a maturity of up to 20 years, comparable in rates to funds provided by the Republic of Slovenia.

Long-term sources of funding for financing international business transactions and internationalization

In order to provide Slovenian exporters and their commercial banks with favourable long-term funding for pre- and post-shipment financing of international business transactions in various currencies, SID Bank raised funds through diverse financial instruments in international financial markets.

In 2007 SID Bank and DEPFA ACS BANK signed a long-term framework agreement for the successive issuing of *Schuldscheins* (debt certificates) in the amount of EUR 312.5 million and a borrowing option with a maximum maturity of 20 years. In accordance with the signed agreements in 2007 SID Bank issued *Schuldscheins* with a maturity of 7 and 20 years.

Through its continuous presence in international financial markets, SID Bank is building on its reputation as a first-class partner with an excellent track record; in the future this reputation, backed by the State guarantees for loans and debt securities, will continue to enable the Bank to access funds for financing the international business activities of Slovenian companies under favourable conditions.

6.4. Treasury

SID Bank Treasury manages the liquidity of Bank's accounts and closes deals with instruments of the monetary, capital and foreign currency markets and derivative financial instruments with the purpose of asset management.

In closing deals in the financial market, the Treasury operates as a business field; on the other hand, the role of the Treasury is of particular importance with regard to balance sheet management and mitigation of liquidity, interest rate and currency risks and provision of certain special products.

The Loans and Guarantees are separated from Treasury operations in such a way that the Loans and Guarantees grants loans regardless of the SID Bank's balance sheet segment, and raises funds backed up by state guarantees, whereas the Treasury secures funds without state guarantees and manages assets, except loans, regardless of the SID Bank's balance sheet segment. Besides this, the Treasury mitigates market risk for all SID Bank balance sheet segments.

The Treasury manages, in part or in total, four portfolios:

- Investments from SID Bank's own funds,
- Investments from funds obtained under the guarantee of the Republic of Slovenia
- Contingency reserves and
- IREP reserves.

The procedure for entering into stated transactions is governed by the Bank's internal acts, which specify the decision-making process, authorisations and the potential risks SID Bank may encounter in treasury transactions. SID Bank's investments are held in the banking book, with securities investments classified as assets available for sale. Transactions in derivatives are held in the trading book, given that the volume of these transactions does not exceed EUR 15 million or five percent of all transactions conducted by SID Bank. The investments held by SID Bank Treasury are aimed at balancing liquidity, currency and interest rate risks.

SID Bank's own funds

Treasury investments from SID Bank's own funds amounted to EUR 58.8 million as at 31 December 2007, representing 31.9 percent of the Bank's total own assets. The Treasury conducted transactions with partners rated BBB- or higher and with Slovenian banks and unrated subsidiaries whose credit rating under the methodology of SID Bank was not lower than B.

The currency structure of investments corresponded with the currency structure of SID Bank's assets and was closely coordinated with the adopted limits. The Treasury also coordinated the maturity structure of assets and liabilities. As for the type of interest rate, the major part of investments (approx. 80 percent) was taken up by fixed rate investments, with their structure adjusted continuously to the changes in the interest rate market.

As a rule, SID Bank does not hold investments that are not settled by an independent institution. Priority is given to investments which can be used in concluding REPO transactions as well as investments which, on the basis of the existing decisions of the Bank of Slovenia, can be considered as category one investments in the calculation of liquidity ratios or can be considered in calculations of the liquidity of the European Central Bank. On account of lower transaction costs, primary market investments are preferred over secondary market investments. SID Bank operates in the financial markets of EEA and OECD member states.

On a small scale, SID Bank also made use of borrowing without state guarantees, obtaining funds mainly from banks and certain other institutions. The borrowing was made through money market instruments with a maturity of up to one year and, normally, at a fixed interest rate. As for borrowing, SID Bank's operations in the Slovenian financial market, and in part also in the international financial market, were greatly limited due to the Bank's excess liquidity position.

SID Bank is not an authorised participant in the securities market. Transactions in securities were concluded as an investment option supplementing the Bank's ordinary activities and as a way to mitigate the liquidity risk and not for the purpose of trading. All investments are held in the banking book and classified as assets available for sale.

Treasury investments from SID Bank's own funds include mainly Slovenian and foreign government bonds, market bonds issued by other issuers and deposits. The majority of investments are denominated in euros. With regard to investment policy, the highest priority is given to investment-grade investments. About two fifths of all investments are rated A (S&P), and two fifths are held in investments to unrated issuers (Slovenian banks).

SID Bank's funds from sources of funding obtained with a state guarantee

A detailed definition of SID Bank's investment structure is given in the *Rules on the Implementation of Loans for Financing International Trade and Investments.* In this segment of SID Bank's operations, the Treasury only held investments in the deposits to commercial banks for the purpose of liquidity control and other investment in short-term debt instruments issued by high-rated issuers. In liquidity control, the Treasury followed the strategy of reduced risk concentration, which means that excess liquidity was placed with banks to which SID Bank has a low exposure. Derivative financial instruments were not used in this segment of SID Bank's operations, since activities were dominated by the policy of a closed foreign currency position and the policy of interest rate harmonisation (variable, linked to six-month Euribor) and maturity of both assets and liabilities. Treasury investments in this segment aimed at liquidity control totalled 0.97 percent of the Bank's investment from sources of funding obtained with a state guarantee at the end of 2007.

Treasury investments from sources of funding obtained with a state guarantee as at 31 December 2007 amounted to EUR 10.3 million and included deposits in Slovenian banks, with a fixed interest rate and denominated in euros.

Other treasury services

SID Bank's Treasury operates as the SID Bank Group Treasury and as such undertakes technical activities concerning the management of portfolio of the cover assets and own assets portfolio for a Bank's subsidiary, SID – Prva kreditna zavarovalnica d.d. Ljubljana (PKZ). To a large extent, the structure of investments is specified in the Insurance Act. In 2007 SID Bank 's Treasury performed control of liquidity and currency risks for PKZ. SID Bank's Treasury carries out these services on the basis of the *Agreement on Excluded Treasury Transactions* and in accordance with the decisions taken by the Management Board of PKZ by placing orders with authorised market players on behalf of PKZ.

6.5. Transactions under Special Authorisation - Insurance against Non-Marketable Risks

Certain commercial and non-commercial or political risks (non-marketable risks) of the nature and level for which private reinsurance market lacks either willingness or capacity to cover are insured by SID Bank as an authorised institution on behalf and for the account of the Republic of Slovenia. According to the EU legislation, non-marketable risks are defined as commercial and political risks of a time horizon exceeding two years in the OECD countries and all risks in countries which are not OECD members.

The role of the Republic of Slovenia is of key importance as without an insurance cover most such business transactions, especially medium-term, would not be carried out. Furthermore, it is in insurance of such transactions that export promotion as one of the core activities of SID Bank is clearly expressed. Due to the size of transactions and higher risks involved, states remain by far the most important reinsurer of export credits and investments ("last resort"), in particular with regard to medium- and long-term risks.

The transaction which SID Bank as the national export credit agency (ECA) performs on behalf and for the account of the Republic of Slovenia are in terms of management and accounting clearly separated from the operations performed for SID Bank's own account.

Review of operations in 2007

Insurance against non–marketable risks on behalf and for the account of the state 2005–2007

In EUR million	2005	2006	**2007**
Business insured	388.7	402.2	**530.2**
Exposure (31 December) – net*	497.5	566.6	**631.9**
Premiums	6.40	6.66	**4.00**
Claims	3.24	1.00	**0.35**
Number of claims	19	17	**5**
Recoveries	0.07	0.08	**0.07**

* Exposure also considers offers of cover, given in accordance with the ZZFMGP and with regard to their nature (binding).

- ***Business insured***

The volume of business insured against non-marketable risks reached EUR 530.2 million in 2007, posting a 32 percent rise on the previous year. The growth is largely attributable to an increase in insured investments of Slovenian companies abroad, which climbed 55 percent to reach EUR 477.1 million. However, the volume of medium-term export credit insurance, which takes up 9 percent of total business insured, dropped 47 percent. The downward trend was also apparent in short-term insurance (down by 9 percent) although its volume was too low to significantly affect the overall insurance volume.

The top 2007 investment insurance clients include Serbia, Bosnia and Herzegovina, Macedonia, Russia, Montenegro, Israel, Iran, Ukraine and Belarus.

- ***Exposure***

Exposure from business insured for the account of the Republic of Slovenia (insurance covers issued) stood at EUR 594.7 million at the end of 2007, representing a year-on-year rise of 23 percent. The increase resulted from higher exposure in medium-term insurance, in particular with regard to outward investment insurance that was up by 32 percent, and in medium-term insurance against commercial risks which saw an upturn of 13 percent.

There was a fall in exposure for valid offers of insurance plunging by 56 percent to EUR 37.1 million, which are counted in the total exposure on account of their binding nature and pursuant to the ZZFMGP.

Exposure as at 31 December 2007 was highest with regard to Serbia (40 percent of total exposure), Russia, Bosnia and Herzegovina, Ukraine, Macedonia, Iran, Croatia, Kazakhstan, Montenegro, Belarus, etc.

- ***Insurance technical figures***

Insurance premium totalled EUR 3.9 million in 2007, dropping 40 percent due to a decrease in medium-term and short-term export credit insurance business. However, responding to the increased investment insurance volume, premium charged on outward investment insurance was up 41 percent in 2007. Income from handling fees was negligible because SID Bank, in conformity with its business policy and valid price lists, returns the amount charged to exporters and other persons insured if the project is implemented.

Compared with 2006, **claims paid** were down 65 percent in 2007, dropping to EUR 0.35 million. The number of all claims paid decreased from 17 to five. SID Bank successfully **recovered** EUR 0.07 million from paid claims, the relatively low amount being linked to a low number of claims paid out from insurance for the account of the state in previous years. As at 31 December 2007, the volume of **claims for compensation** was down 58 percent year-on-year with the volume of **potential claims** up 1.6 percent over the same period.

The current **business result** from insurance made for the account of the state amounted to EUR 5.1 million, and was used to further increase the contingency reserves, closing the year at EUR 103.0 million.

Insurance against non-marketable risks on behalf and for the account of the state, 2005-2007; by type of insurance

In EUR million	2005	2006	**2007**
Short-term export credits			
Business insured	7.0	6.3	**5.7**
Exposure (31 Dec.) - net	2.5	4.3	**9.3**
Premiums	0.27	0.05	**0.03**
Claims	0.74	0.47	**0.03**
Number of claims	18	16	**4**
Recoveries	0.07	0.08	**0.07**
Medium-term export credits			
Business insured	68.1	88.8	**47.4**
Exposure (31 Dec.) – net*	205.4	267.0	**268.7**
Premiums	4.04	4.82	**1.45**
Claims	2.50	0.53	**0.32**
Number of claims	1	1	**1**
Recoveries	/	/	/
Investments abroad			
Business insured	313.5	307.1	**477.1**
Exposure (31 Dec.) - net	289.6	295.3	**353.9**
Premiums	2.09	1.79	**2.52**
Claims	/	/	/
Number of claims	/	/	/
Recoveries	/	/	

* Exposure also considers offers of cover, given in accordance with the ZZFMGP and with regard to their nature (binding).

Short-term export credit insurance

In 2007 short-term credit insurance amounted to EUR 5.7 million, the 9 percent drop from 2006 primarily caused by a decrease in individual short-term insurance covers. The major part of short-term credit insurance was linked to export credit revolving insurance of Slovenian companies to buyers in Iran.

At the end of 2007 exposure for these insurance covers reached EUR 9.3 million, its rise of 116 percent over the 2006 figures largely due to SID Bank providing reinsurance of short-term export credits on the basis of a Reinsurance Agreement concluded in 2007 between SID Bank and its subsidiary, PKZ; and on account of certain individual covers of export credit insurance which were still outstanding at the time.

The decrease in business insured led to lower total insurance premium, which declined 39 percent to EUR 31 thousand. For similar reasons, claims dropped significantly by 94 percent to a low EUR 28 thousand.

Medium-term export credit insurance

The majority of medium-term export credits insured in 2007 were linked to investment and construction projects abroad, mainly to Russia, Israel, Croatia, Ukraine, Iran, Bosnia and Herzegovina, and Serbia. These involved export of machinery, transport and telecommunications equipment, hotel infrastructure, export of bakery equipment and agricultural mechanization as well as export of other capital equipment and certain durable consumer goods.

The volume of medium-term export credit insurance covers is fluctuating from year to year due to the low number of such projects executed on a yearly basis. In 2007 it totalled EUR 47.4 million, recording an increase of 47 percent compared to the year before. The main reason for a relatively low number of secured individual transactions requiring medium-term insurance and, normally, medium-term finance facilities, lies in the low number of such export transactions. Factors contributing to this situation include: the development of banking systems in several traditional Slovenian markets which are becoming increasingly capable of providing funding for their best companies under competitive conditions; less favourable insurance conditions for the markets of South East Europe resulting largely from the unfavourable classification of these markets into high risk categories; and finally, the fact that financing options provided by Slovenian banks are still less competitive than those provided by foreign banks.

Exposure to medium-term export credit insurance (insurance covers issued) reached EUR 231.6 million as at 31 December 2007, with Russia, recording a 75 percent share, as the predominating country of exposure. In 2007 total insurance premium amounted to EUR 1.5 million, posting a 71 percent decrease on the previous year as a result of Russia being upgraded to a lower risk category. One claim in the amount of EUR 0.32 million was paid from the insurance of a medium-term export credit to Croatia.

Investment insurance

An increase in Slovenia’s direct outward investment led to a high volume of insurance against political risks, which amounted to SIT 477.1 million in 2007 and was up 55 percent from 2006. New insurance covers were made with regard to investments into trade and financial sectors. It is, however, worth noting that SID Bank managed to retain its investment insurance centred on the area of South East Europe where the trust of investors is gradually picking up thanks to Euro-Atlantic alliances.

The 2007 insurance figures indicate that the growing trend in insurance of investment abroad is likely to continue. The change in the attitude of several Slovenian exporters in relation to insuring the investments of Slovenian companies abroad may be a result of the fact that Slovenia is no longer a transition country and the ownership structures of Slovenian companies have become clearer, setting a higher demand for investment insurance. Furthermore, on the basis of experience gained in neighbouring countries and worldwide, Slovenian exporters have realized, that political risks will always be present.

At the end of 2007, SID Bank's portfolio included 25 investment insurance transactions with Slovenian companies and banks worth EUR 353.9 million. Investment insurance mainly covers transactions in Serbia, Bosnia and Herzegovina, Macedonia, Montenegro, Croatia, Iran and Belarus. In 2007 SID Bank generated EUR 2.5 million in total premium, 41 percent more than in the previous year; no claims were paid in that year.

Contingency reserves

The contingency reserve fund, which constitutes an important capacity of SID Bank and the Republic of Slovenia for insurance against non-marketable risks before claims arising from insurance for the account of the Republic of Slovenia are paid out of the state budget, amounted to EUR 103.0 million as at 31 December 2007.

Investment policy aims at contingency reserve management, which is the capacity to settle insurance claims. Contingency reserve investment policy summarizes the investment policy for cover assets as defined in the Insurance Act, applying, however, an additional restriction that unweighted exposure to a debtor shall not exceed 25 percent of the contingency fund. The provision does not apply to securities issued or guaranteed by the Republic of Slovenia, the Bank of Slovenia, other EU member states or OECD member states, except for Mexico, Turkey and South Korea.

Contingency reserve funds are invested in liquid instruments to the amount representing the sum of all potential claims and claims under consideration from non-marketable risks insurance, or not less than 20 percent of investments from contingency reserve funds. Liquid investments include debt securities listed on the organized market and all other debt documents with residual maturity of under one year.

Provisions of the Insurance Act apply *mutatis mutandis* in controlling the currency structure of investments from the contingency fund. Investments from contingency reserves which expose the Bank to the risks of potential losses resulting from changes in the foreign exchange rate have to be coordinated with the bank's liabilities arising from insurance policies and contracts the amount of which depends on foreign exchange rate changes to a point not lower than 80 percent. Net exposure by currency, which is defined as the sum of all exposures arising from assumed non-marketable risks, is used as the basis for determining the currency structure.

Contingency reserves utilised for financing totalled EUR 63.6 million as at 31 December 2007, representing 61.7 percent of SID Bank's contingency reserves. These investments are largely comprised of short-term and long-term domestic currency loans extended to A-rated financial institutions.

Treasury investment from contingency reserves as at 31 December 2007 amounted to EUR 40.0 million. The changing share of these liquid investments depends largely on the foreseen insurance proceeds and the related liquidity of the contingency reserve funds. Treasury investments from contingency funds are mainly composed of short-term and long-term government securities and bank deposits. The major part of all investments is taken up by AA-rated (S&P) investments, with the share of investments to residents exceeding 70 percent.

New developments concerning insurance on behalf of and for the account of the state

In 2007 Credit and Investment Insurance carried out the following activities aimed at introducing new products and services as part of a system of official export credit support:

- Identified appropriate new products (non-shareholder loan insurance, revision of Component Policy, revision/development of the Bank's project finance policy, local financing, introduction of more favourable conditions for support to renewable energy sources, support to SMEs (provision of operating capital, surety insurance), insurance of construction risks, insurance for non-recourse purchase of trade receivables, insurance of guarantees to cover performance risks, etc.) and devised an implementation plan for each new product;
- Carried out promotion of existing and new SID Bank's products and services, e.g. informing existing and potential clients (banks, other financial institutions, exporters, investors) on the current and planned services of SID Bank, thereby directly identifying the needs of the Slovenian economy for official support to transactions/investments (information activities mainly took the form of client visits);
- Continued its promotion of the reinsurance product offered to primary insurers to help them expand their business operations (reinsurance of non-marketable risks) by spreading the risks they assumed;
- Continued the introduction of a project finance facility into its operations by acquiring relevant expertise and experience (development of underwriting methodologies adapted to the specifics of the energy sector or construction of hydroelectric power plants and hotel complexes and promotion of project finance in the mentioned sectors);
- Enhanced the promotion of the adopted performance risk policy which significantly reduces the limitations imposed upon Slovenian companies in their performance in foreign markets, largely due to lower liabilities arising from recourse agreements entered into with exporters, thereby ensuring a more competitive position for the latter in the market;
- Attempted to increase the number of active reinsurance arrangements entered into with renowned private reinsurers (e.g. Zurich);
- Provided expert technical support and exchanged experience with certain developing ECAs such as AOFI (Serbia), MBPR (Macedonia), and IGA (BiH);
- Continued to make use of information and experience exchange; acquired and strengthened its knowledge in the framework of the Berne Union and supported the operations of the Prague Club.

6.6. Transactions under Special Authorisation – Interest Rate Equalization Programme (IREP)

In accordance with the Act Governing Insurance and Financing of International Business Transactions (hereinafter ZZFMGP) and on behalf and for the account of the Republic of Slovenia, SID Bank implements the Interest Rate Equalization Programme (IREP) for export credits in euros and American dollars falling within the scope of the OECD Arrangement on Officially Supported Export Credits. SID Bank and the Ministry of Finance of RS have concluded an Agreement on Implementation of the Interest Rate Equalization Programme. In deciding upon the dynamics of interest rate equalizations, SID Bank will closely consider the budgetary situation and concrete calculations as well as the situation with regard to credits granted by SID Bank and other financial institutions providing finance for the exports of Slovenian goods and services.

The primary objective of IREP is to offer export credit facilities at fixed interest rates which are lower than commercial interest rates. In doing so, SID Bank enters into interest rate swaps with participating banks, thus providing them with fixed interest rate finance. The purpose of interest rate swaps is to reduce the exposure of the participating bank to interest rate fluctuations originating from approvals of fixed-rate export credits. Since the participating bank is limited with regard to the final margin, it is entitled to the application of an equalization factor. For end borrowers (foreign buyers of Slovenian goods or services) the interest rate is not lower than the CIRR interest rate, and it has a set maximum. More favourable financing will improve the competitiveness of Slovenian exporters in foreign markets.

SID Bank will cover the interest rate risks linked to IREP through inverse interest rate swaps into which it will enter with foreign banks not rated lower than BBB- by Standard & Poor's.

6.7. Credit Rating and Other Credit Information

Enterprises and financial institutions operate in a highly competitive, dynamic, rapidly changing and uncertain environment, which requires from them to be well-informed and to respond quickly and adequately to the ever-changing situation on the market in order to carry out effective risk management.

Aware of these requirements, SID Bank continued to develop its own Credit Rating Department in 2007. In its work, the department uses modern and scientifically sound risk assessment methodology recommended by Basel II, which is further extended to consider SID Bank's vast experience in the area and is supported by the Bank's own information system. A crucial element of the department's work is the existing internal databases which are regularly updated to include reliable credit information and analyses of Slovenian and foreign institutions, as well as other data, which is also exchanged, for example among the members of the Berne Union.

In assessing country risks of foreign markets SID Bank works closely with other relevant institutions, in particular with the Centre for International Cooperation and Development, which provides basic country risk reports for selected markets. For use internally, within SID Bank, the Credit Rating Department prepares credit rating reports and credit information on domestic and foreign companies and banks. With a view to ensuring efficient credit risk management in financing, issuing guarantees and in certain classes of insurance as well as to accommodate external users of credit information, the department prepares corporate credit rating reports and recommended credit and exposure limits. Additionally, SID Bank provides such information to other Slovenian and foreign financial institutions with a growing interest in credit rating data, in particular regarding selected markets, companies and banks in Slovenia and in South Eastern European countries that represent traditional Slovenian markets.

Companies of the SID Bank Group as well as external clients can order the following information from the SID Credit Rating Department:

- Credit rating information on Slovenian companies (companies and sole proprietors),
- Credit information on Slovenian banks,
- Credit information on banks and companies in the South East Europe. (in the scope of the SEE Project).

Within the scope of the SEE Project with SID Bank's subsidiary PRO KOLEKT as the lead partner, a number of activities were carried out in 2007 aimed at training, on-line consultations and gradual transfer of methodology and technology that enables performance of credit information orders from individual countries. The department is currently able to obtain sufficient information from Croatia, Romania and Bulgaria to prepare a full credit rating report.

Access to credit information via the Internet

Standardized credit rating information on Slovenian companies (SID-BON) prepared by the SID Bank Credit Rating Department on the basis of publicly available data is now readily available to registered users via the Internet (SID-NET). Registered users thus provided with fast, safe (password protected) access to quality up-to-date information, in particular concerning Slovenian companies, enabling SID Bank Group clients faster decision-making relative to business operations, appropriate monitoring and, consequently, better performance.

6.8. Risk Management

The management and mitigation of risk and aligning corporate business objectives with an approach towards risk is one of the main challenges facing every bank and financial institution. In its risk management practises SID Bank needs to observe its public character, the breakdown of its business operations into transactions involving the Bank's own assets, the promotion of international business transactions backed by the guarantee of the Republic of Slovenia and activities performed for the account of the state, including the management of contingency reserves.

The primary objective of risk management is to reduce the likelihood of risk incidents and minimise losses when a loss event does occur. Risk management is concerned with identifying, measuring, controlling and minimising risks, so ensuring the safe and stable operation of a company. Safe and efficient operation is SID Bank's priority risk management objective as in the long term it leads to increased equity value, helps the company enhance its reputation and maximises the benefits for the Bank's clients and other stakeholders.

Risk management is a permanent process which comprises the identification and measurement of risk and risk mitigation measures, aligned with SID Bank's long-term strategy to create the conditions for its safe and efficient operation. Preconditions necessary for efficient risk management include an appropriate organisational structure and regulated work processes, enabling the achievement of business goals accompanied by the implementation of safe business operations in compliance with existing regulations. The key objective of risk mitigation measures is to ensure a high level of risk awareness at all levels of operation.

The identification of risks is performed within organisational units which remain separated from commercial units up to the level of the Management Board, so providing for independent and objective risk assessment. Responsibility for the direct implementation of risk management lies with the following bodies and organisational units:

- Credit Risk Committee; mitigation of credit risk and large exposures;
- Liquidity Risk Committee; liquidity and foreign exchange risks;
- Asset-Liability Committee; balance sheet composition, capital adequacy, aggregate risk;
- Risk Management Department; preparation of risk management policies, risk monitoring;
- Credit Rating Department; assessment of the clients' financial situation;
- Back Office and Payments; daily follow-up on currency and liquidity risks within the limits set.

Risk management related activities on which SID Bank focused in 2007 were mainly aimed at securing compliance with the more demanding regulatory requirements stipulated in the New Banking Act based on the Basel II Accord. In accordance with the Basel II guidelines, SID Bank assessed its risk profile and set up a portal for reviewing and evaluating the adequate internal capital assessment procedures. Like most Slovenian banks, SID Bank has postponed the application of new regulations by the beginning of 2008, wherever the Banking Act allows for such a delay (calculation of capital requirements for credit and operational risks, certain provisions concerning regulatory oversight).

The principal risks faced by SID Bank are credit risk, currency risk, liquidity risk, interest rate risk and operational risk.

Risk management is of particular importance in credit and investment insurance as these operations are conducted on behalf and for the account of the Republic of Slovenia. Loss ratio is compensated for using the contingency reserve, but higher losses from these operations could bring contingent funds down to a level at which the ZZFMGP requires additional funds to be appropriated from the budget of the Republic of Slovenia.

In SID Bank effective risk management starts with a proper organisational structure. Credit and investment insurance is conducted by a special department which is separated from banking operations up to the level of the Management Board. The definition of the right to close deals is similar to that found in the banking segment, in that all deals of an amount exceeding EUR 5 million shall be approved by the International Trade Promotion Commission. The Commission holds ultimate authority over other risk management issues such as approving insurance policies for certain countries or groups of countries, which limit the potential volume of loss in addition to the insurance limits specified in the ZZFMGP.

Capital and capital adequacy

Adequate capital is key to ensuring the solvency and liquidity of a bank as the basis for its uninterrupted operation and financial sources for expansion of business activities. Capital adequacy, expressed in relative terms with regard to the volume of business and the risks undertaken, guarantees trust in the company's operations and enables the stable development of a company in line with its set goals.

SID Bank's regulatory capital, calculated according to the Regulation of the Bank of Slovenia on Capital Adequacy of Banks and Savings Banks (CABSB), which covers all SID Bank's own account operations (except for the insurance of international business transactions, the management of contingency reserves and IREP), amounted to EUR 68.1 million as at 31 December 2007, recording a rise of EUR 1.3 million compared to 2006. The Bank must take into consideration the differences between the impairments and provisions declared under the collective assessement method using IFRS methodology and the account of impairments and provisions calculated on the basis of percentages specified in the CABSB as a deduction item in the calculation of regulatory capital in accordance with the current regulations on capital adequacy of banks and savings banks (for more detailed explanation on the policy of impairments and provisions formations see 5.2.5. Notes to Financial Statements).

The capital adequacy ratio is the ratio between the company's regulatory capital and the risk weighted assets of credit and currency risks. The minimum ratio of 8 percent was significantly exceeded in 2007. The capital adequacy ratio was 71.7 percent with regard to operations governed by the Banking Act, and 12.8 percent for all the operations which SID Bank conducted in the year ending for its own account (all operations except insurance of international business transactions, the management of contingency reserves and IREP). The capital adequacy figures obtained from calculations under the Basel II Accord, which SID Bank will start implementing in 2008, are slightly lower but remain well above the minimal 8 percent.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's failure to settle financial obligations when they are due. Credit risk management begins prior to the conclusion of a contractual relation by determining the credit rating of a client and by putting in place appropriate insurance instruments. The credit exposure limit is approved by the Credit Risk Committee. Throughout the transaction life cycle, credit risk is managed using the following: close monitoring and credit portfolio management; limiting the concentration of credit risk with regard to a client, a group of clients, a branch and a country; classifying and creating provisions for predicted losses; and by providing sufficient capital for incidents when losses exceed expectations.

Credit risk considerations:

- Risk of financial loss from credit transactions;
- Country risk concerning debtor country;
- Risk of securities issuer;
- Credit risk of counterparty default and derivative financial instruments.

Although SID Bank introduced individual evaluations of losses and impairment calculations under IFRS and, consequently, need not have changed its Bank of Slovenia based classification into A to E risk categories, it decided to maintain the classification[2]. The clients of the highest credit rating are ranked A and the clients with the lowest credit rating are ranked E. The quality of credit portfolio can be continually monitored across these rating classes and compared against other banks.

SID Bank credit portfolio by credit rating category as at 31 December 2007

Category	In EUR million	Share
A	919.5	78.1%
B	226.2	19.3%
C	31.0	2.6%
D	2.2	0.2%
E	0.0	0.0%
Total	**1,178.9**	**100.0%**

The balance of SID Bank credit portfolio as at 31 December 2007 indicates that 78.1 percent of all credits, other claims and off-balance sheet liabilities are classified into the highest credit rating category. A further 19.3 percent of the portfolio falls into the B credit rating category, 2.6 percent in C, whereas categories D and E acccount for a total of less than one percent.

SID Bank credit portfolio by debtor country as at 31 December 2007

Country	In EUR million	Share
Slovenia	1,035.8	87.8%
Croatia	51.0	4.3%
Serbia	20.2	1.7%

[2] For its internal use, SID Bank uses more detailed credit rating categories expressed in three-letter codes.

Bosnia and Herzegovina	15.1	1.3%
Montenegro	10.1	0.9%
Russia	15.0	1.3%
Other countries	31.7	2.7%
Total	**1,178.9**	**100.0%**

Impairments and provisions are an important element of mitigating the risk of loss arising from a credit event (Impairment and provisioning policies are presented in more detail in 5.2.5 Notes to Financial Statements). As at 31 December 2007, SID Bank recorded impairment and provisions totalling EUR 16.4 million, which was EUR 2.4 million more than a year earlier. Impairments and provisions are derived from individual or group-based assessment of losses, whereas losses arising from credit exposure classified in credit quality categories C, D or E are assessed on an individual basis. The ratio of total provisons and impairments and total exposure classified into these categories is 1.36 percent.

Issuer risk is linked to the portfolio SID Bank manages with a view to ensuring liquidity and asset-liability management. SID Bank does not conduct trading transactions. The Bank mitigates credit risk by setting limits concerning the credit rating of the issuer and by monitoring market values of securities concerned.

Securities portfolio by credit rating of issuer as at 31 December 2007

Credit rating (S&P)	In EUR million	Share
AA or higher	16.0	39.3%
BBB- to A+	11.8	29.0%
Unrated	12.9	31.7%
Total	**40.7**	**100.0%**

Detailed presentation of securities portfolio as at 31 December 2007 by credit rating of issuer is available in 5.5.3. Notes to Financial Statements.

Liquidity risk

Liquidity risk, in the narrow sense of the word, is the risk which arises when SID Bank cannot cover its payment obligations with its liquid assets. Therefore, liquidity is the capacity of a company to hold and ensure sufficient resources to meet its (balance-sheet or off-balance-sheet) obligations when they are due. These obligations are normally settled using cash inflows, liquid assets and borrowed funds. The larger the mismatch of the principal and interest flows on the assets and the liabilities side and the off-balance-sheet items, the larger the liquidity risk.

In accordance with its adopted Liquidity Policy Statement, SID Bank ensured that all its financial obligations were regularly and continuously met. Liquidity management is based on planning the inflows and outflows, which SID Bank performs separately for its own account and for the contingency account.

SID Bank monitors its exposure to liquidity risk by means of liquidity indicators (ratios between outflows and inflows over one- to six-month periods) which the Bank of Slovenia sets at the minimum value of one. The value of indicators normally exceeded 1.5. High indicator values are a result of the long maturity of liabilities and appropriate secondary liquidity.

Liquidity risk in its broader sense, i.e. the risk of a bank having to take out additional funding at an increased interest rate (funding risk) or the risk that due to its liquidity needs a bank will have to sell non-monetary investments at discounted value (market liquidity risk) is low thanks to an excess short-term liquidity position and appropriate secondary liquidity. Secondary liquidity contains a relatively high proportion of government and other securities of high quality and liquidity.

Balance sheet by maturity as at 31 December 2007

	Assets		**Liabilities**		**Gap**
Maturity class	In EUR million	as % of total assets	In EUR million	as % of total assets	In EUR million
sight	0.3	0.0%	0.0	0.0%	0.3
Up to 1 month	10.5	0.8%	14.8	1.2%	-4.3
From 1 to 3 months	19.5	1.6%	7.8	0.6%	11.7
From 3 months to 1 year	109.1	8.7%	41.3	3.3%	67.8
From 1 to 5 years	398.1	31.9%	368.6	29.5%	29.5
Above 5 years	711.2	57.0%	816.2	65.4%	-105.0
Total	**1,248.7**	**100.0%**	**1,248.7**	**100.0%**	**0.0**

Detailed presentation of assets and liabilities by maturity as at 31 December 2007 is available in 5.8.1. Notes to Financial Statements.

Currency risk

Currency risk management is aimed at determining the potential loss which might arise as a result of changes in exchange rates, through the application of an open foreign currency position, that is the difference between the sum of all investments in foreign currency and all liabilities in foreign currency. The open foreign currency position is constrained by internal limits. In accordance with the CABSB, the higher value of the sum of long positions and the sum of short positions is included in the risk-adjusted positions which need to be capital covered up to 8 percent.

After the changeover to the euro at the beginning of 2007, the share of foreign currency investments as of foreign currency liabilities dropped significantly. At the end of the year, US dollar investments came very close to US dollar liabilities. Positions in other foreign currencies were negligible throughout the year and closed at the end of 2007. Capital requirements for foreign currency risks totalled EUR 0.3 million at the end of the year.

SID Bank uses its two foreign currency forward contracts in the amount of USD 2 million as a collateral against currency risk it encounters in its daily operations on financial markets.

Balance sheet by currency structure as at 31 December 2007

	Assets		**Liabilities**		**Gap**	
	In EUR million	as % of total assets	In EUR million	as % of total assets	In EUR million	as % of equity*
EUR	1,226.1	98.2%	1,227.4	98.3%	-1.3	-1.9%
USD	22.6	1.8%	21.3	1.7%	1.3	1.9%
Other currencies	0,0	0.0%	0.0	0.0%	0.0	0.0%
Total	**1,248.7**	**100.0%**	**1,248.7**	**100.0%**	**0.0**	**0.0%**

** Note: Considered capital under the Regulation of the Bank of Slovenia on Capital Adequacy of Banks and Saving Banks.*

Detailed presentation of balance sheet by currency structure as at 31 December 2007 is available under 5.8.2 Notes to Financial Statements.

Interest rate risk

The business operations of SID Bank are linked to two types of interest rate risks. The first risk type arises from the difference between the lending interest rate applied by SID Bank and the borrowing interest rate, or interest rate sensitivity to changes in general market interest rates. The second risk derives from the interest rate sensitivity of proceeds from equity investment.

SID Bank largely manages its exposure to interest rate risk by harmonising the methods of interest rate calculation on assets and liabilities. The highest share of assets and liabilities is represented by euro-denominated instruments with interest rates linked to the Euribor, which only leaves residual risk arising from timing differences of repricing to the reference rate and incomplete coordination in selecting the reference interest rate (three- or six-month Euribor).

In addition to coordinating its interest rate calculations, SID Bank also applied, to a limited extent, financial derivative instruments (interest rate swaps) as an additional tool to mitigate interest risk.

Presentation of assets and investments by period remaining to interest rate repricing as at 31 December 2007

	Assets		**Liabilities**		**Gap**
Maturity class	In EUR million	as % of total assets	In EUR million	as % of total assets	In EUR million
non-interest bearing	29.8	2.4%	124.2	9.9%	-94.4
sight	0.3	0.0%	0.0	0.0%	0.3
up to 1 month	10.3	0.8%	14.4	1.2%	-4.1
From 1 to 3 months	19.4	1.6%	37.2	3.0%	-17.8
From 3 months to 1 year	107.8	8.6%	10.8	0.9%	97.0
From 1 to 5 years	394.0	31.6%	312.8	25.1%	81.2
Above 5 years	687.1	55.0%	749.3	60.0%	-62.2
Total	**1,248.7**	**100.0%**	**1,248.7**	**100.0%**	**0.0**

Operational risk

Operational risk refers to the risk of loss resulting from the company's failure to perform or perform effectively its internal processes, from deficiencies in human actions or system operations or from external factors. The degree of operational risk depends on the company's internal organisation, business process management, the operation of internal control mechanisms, the effectiveness of internal and external audits and similar measures. The main factors affecting operational risk are human resources, business processes, information technology and other infrastructure, organisational structure and external events.

In view of the relatively high balance sheet total, the operational risk per employee is quite high, but SID Bank manages to control it through a specific system of decision-making and authorisations, by providing substitutions for absentee workers, through insistence on suitable staff qualifications and investments in information technology. SID Bank has put in place the formal policies, processes and procedures of operational risk mitigation system, with the system of internal audits as its primary base. System risks inherent in information technology are increasing in line with the level of informatization. They were managed through additional measures such as the implementation of continuous operation plans and other measures aimed at maximising information security.

Risk management in SID Bank Group

Consolidated risk management observes the heterogeneity of the Group, consisting of a parent institution, authorised and supervised under banking regulations, a subsidiary insurance company, authorised and supervised under the Insurance Supervision Agency, a factoring company, which assumes risks similar to those undertaken by the Bank but is not regulated, and PRO KOLEKT as a non-financial institution which does not assume greater financial risks.

Business relations exist among the companies of the SID Bank Group which affect the type and volume of consolidated risks. Special attention is paid to areas where the nature of transactions performed could lead to a concentration of the same risk, which is of particular relevance in concentrations of credit and insurance risks with regard to the same debtor (considering the links between risks and debtors).

The primary objective of risk management for the SID Bank Group, as for SID Bank, is to reduce the likelihood of risk incidents and minimise losses when a loss event occurs. Key areas of concern include quantification and management of credit risk at the SID Bank Group level and exposure of the SID Bank Group to a client, an industry, a country, etc. Following the implementation of new banking regulations (Basel II) and in accordance with the requirements of the third pillar (disclosure requirements and market discipline) and IFRS, SID Bank will consolidate its risk control systems for the banking group and for the banking-insurance group.

Furthermore, all companies have in place an appropriate organisational structure that enables effective risk management by defining risk assumption processes as well as processes aimed at identifying, measuring and managing risks.

Detailed presentation of Risk Management of the SID Bank Group is given in points 5.6 and 6. of the Consolidated Financial Statements of the SID Bank Group.

6.9. Information System

A banking information system must ensure safe and controlled access to timely, integral and available information. In addition to supporting business processes, the information system must enable reporting to banking regulators and other external institutions and help users in the decision-making process. In response to the constantly changing and increasing business needs of SID Bank and regulatory requirements, the information system needs to be regularly updated and improved.

In 2007, SID Bank pursued numerous activities related to the development of information technology. In the course of these activities, SID Bank:

- Focused on ensuring the security and reliability of operations; in terms of security, several improvements to various system segments were made, including installation of a firewall, local area network and uninterruptable power supply;
- Carried out an independent internal and external safety audit of the information system;
- Prepared the groundwork and started activities for a comprehensive upgrade of server infrastructure and system software towards the software system visualisation and introduction of a composite data field;
- Completed the project of changeover to the euro and started operations in euros as the domestic currency;
- Focused on production reporting of a full range of banking reports and redesign of reporting and other applications in compliance with the Basel II requirements; the complexity of external reporting has increased significantly following the company's transformation into a bank and will increase further with the Basel II Accord, which was actively implemented throughout the year;
- Adapted the system to offer support to loan-deposit operations;
- Redesigned the information support to securities transactions;
- Joined the SWIFT network and revised its payment transactions programme.

In respect of the Bank's role in the SID Bank Group, certain activities were focused on coordinating the development of information systems of all companies of the Group.

In order to ensure better control over the company, a survey of all processes underway in the Bank was made. The major elements of the SID Bank's information system development strategy include a comprehensive oversight of the goal-based organisation of processes considering the aspects of quality as well as efficiency as well as reviews of the business policy and risk management strategy.

6.10. Personnel

Human resources policy

With regard to education and development, SID Bank focused on implementing the key goals stated in the Human Resources Policy, based on SID Bank's Action Strategy for the period ending in 2010. These goals include:

- Enhancing employee identification with the new mission statement and strategy of the Bank;
- Upgrading specialist knowledge and to develop and acquire specialist knowledge about new Bank's activities (also by hiring new staff);
- Putting in place »learning organization« and »knowledge management« models, and
- Ensuring the innovative transfer of good practice.

The Action Strategy is a set of basic principles guiding SID Bank operations which the Bank believes employees should embrace and demonstrate in their daily work, in their relations with colleagues and in their contacts with customers and other interest groups. The Action Strategy defines the following values as important:

- The ability to identify and satisfy the needs of customers and the environment;
- Responsibility;
- Openness and creativity;
- Professionalism and teamwork;
- Trustworthiness and transparency; and
- Cooperation and sustainable development.

Employee development

Employee development was also focused on in 2007. Promoting employee development is one of the key conditions and elements of corporate development, as only a company with qualified and competent staff can be competitive in the global market. Annual appraisal interviews and semi-annual interviews were conducted with all employees in order to determine the achievement of set goals.

Annual appraisal interviews provide the basis for an assessment of an individual's development potential, the identification of key personnel (managers and specialists – responsible for the development of new activities) and the preparation of an annual training plan, as they indicate requirements for new knowledge and facilitate the targeted training and education of individuals and employee groups.

A reward and promotion scheme has been designed to reward and motivate high-performance personnel and utilize their capabilities to achieve ambitious business plans.

Training

Considering the need for expert knowledge in the area of financing and the insurance of business transactions, SID Bank gave special attention to acquiring and transferring knowledge, in particular in insurance, financing, treasury, legal matters, information technology, accounting and internal auditing. Training took the form of in-house training and participation in conferences, workshops, seminars, postgraduate studies and the like, both in Slovenia and abroad.

Employees also acquired certain general skills, especially with regard to foreign languages, goal setting, time management and business etiquette. More specific areas targeted include banking topics, key account management, corporate financial analyses, insurance of bank investments, business negotiations, project finance, Slovenian integration into the European Union, international financial reporting standards, tax legislation, payment systems and public procurement.

In 2007 fifty-three employees (79 percent of all employees) attended various forms of training.

Project work

The year 2007 was marked by various projects e.g. Basel II, SWIFT, Optimization of Business Processes, Data Warehouse and Alternative Location. Special attention was paid to the project Survey and Optimization of Business Processes. Given the company's rapid growth over the last 15 years, both in terms of service and business volumes and in terms of organisation, and its statutory (mainly due to its transformation into a bank) and organisational changes, it was agreed that the company's business processes need to be surveyed and, when needed, optimized, which would improve the efficiency of the Bank considerably with regard to the bank's processes, information support, risk management, internal auditing, etc.

Project work is subject to special rewards and forms the basis of individual development and the development of team-work and cooperation.

Recruitment (structure and trends)

Personnel recruitment in 2007 was conducted in accordance with an approved business policy and recruitment plan. In 2007 eight employees were engaged.

SID Bank ended the year with 69 employees (47 women and 22 men) with the average number of employees in 2007 totalling 67.

Personnel structure by education level as at 31 December 2007

Education level	Share
Secondary education	17%
College	9%
University	64%
Master's	9%
Doctorate	1%
Total	100%

Personnel structure by age as at 31 December 2007

Age	Share
21 - 30 years	28%
31 - 40 years	33%
41 - 50 years	30%
51 - 60 years	9%
Total	100%

Labour costs

The payment of salaries and allowances complies with the provisions of existing legislation and the Collective Agreement of Banks and Savings Banks in Slovenia.

In 2007, SID Bank covered part of the premium for the voluntary supplementary pension insurance and the premiums for the voluntary supplementary health insurance for all employees.

Internal communications

The internal exchange of information and communication is ensured through numerous well-established tools and applications, such as: e-mail, the internal e-newsletter Cekin first published in 2007, and access to a number of databases (e.g. memos on business meetings, minutes and decisions of corporate bodies, internal rules and regulations, expert library, descriptions of working procedures, proposals and ideas).

6.11. Internal Audit

In terms of organisational structure and human resources, the Internal Audit closely follows the requirements of the Banking Act and is organised as a service directly responsible to the Managent Board. The Internal Audit department (IA) employs two people, namely the Director of Internal Audit, who is a certified auditor, and an internal auditor, who holds the professional title of auditor.

In 2007 the Internal Audit provided audit assurances and advisory services consistent with The International Standards for the Professional Practice of Internal Auditing, the code of internal auditing principles, the code of professional ethics for internal auditors and relevant provisions of the Banking Act.

The primary objective of the IA operation is to promote an elaborate and regulated system of evaluating and improving risk management efficiency through independent and objective assurance and advisory services. In 2007, the Bank's main objectives, namely:

- Regulated, cost-effective, efficient and profitable operation and development, creation and sale of high-quality financial products;
- Safeguarding of assets against loss resulting from negligence, unauthorised use, poor management, default and fraud and other deficiencies;
- Conduct of operations in compliance with the legislative, regulatory and administrative provisions, internal rules and management guidelines;
- Upgrading and maintenance of reliable accounting and other data and information; true and fair representation of the data in reports;

were achieved through the activities performed by the IA in its supervisory and advisory function.

The IA defined internal audit reviews as its regular task on the basis of risk assessment principles by organisational units or business functions; Accordingly, the IA conducted internal audit reviews in the following areas: information technology, accounting, money laundering, payment transactions, credit risk management, long-term borrowing and reporting to the Bank of Slovenia. Moreover, it examined the implementation of several major projects (changeover to the euro, Basel II) and reviewed the annual reports and financial statements of SID Bank’s subsidiaries.

In providing advisory services, the IA offered support to other business and expert areas of SID Bank. Its major activities in this field included:

- Meeting with the Bank's contracted external auditor to finalise the audit of the 2006 Annual Report and a preliminary audit for 2007, to discuss and harmonise the Appendices to the 2006 Annual Report, a special opinion on the sources of funds secured under the guarantee of the Republic of Slovenia for 2006, and to review the Letter to the Management Board;
- Advice on accounting issues (changes to the company accounting rules, introduction of an application to support securities transactions);
- Involvement in the introduction of new products;
- Advice on the preparation of guidelines governing reporting procedures of the companies of the SID Bank Group;
- Analysing the performance of PRO KOLEKT;
- Involvement in the projects Basel II, SWIFT, and Data Warehouse;
- In the course of activities associated with the project Survey and Optimization of Business Processes, the IA, together with the Information Protection department, elaborated a draft Project Implementation Document, made a survey of the internal audit process and, again with the Information Protection Department, began an audit of the quality of the project outputs.
- Active and constructive involvement in the preparation of the methodology for assessing the bank's risk profile and the risk profile assessment methodology in general, which was later used in complying with the Basel II requirements and in the planning of the Internal Audit tasks for 2008.

Throughout 2007, the IA conducted 17 reviews. The findings of each review were reported directly to the Management Board. All the recommendations made by the internal audit were adopted by the Management Board. The Internal Audit also prepared quarterly reports and an annual report on internal audit operations. All reports were discussed at regular meetings of the Management and Supervisory Boards.

7. Review of SID Bank Group Operations in 2007

7.1. Financial review of SID Bank Group operations

The consolidated statements of the SID Bank Group include PKZ according to the full consolidation method and the PRVI FAKTOR Group according to the proportional consolidation method. Owing to its insignificant impact on the financial position and business results of the SID Bank Group, the PRO KOLEKT Group is not included in the consolidation.

Consolidated income statement summary

In EUR thousand	2005	2006	2007
Net interest	9,393	10,434	13,021
Net income from insurance	4,165	4,899	6,793
Net non-interest income	4,161	4,416	6,600
Labour, general and administrative costs	(6,879)	(9,185)	(10,036)
Depreciation	(470)	(537)	(746)
Impairments and provisions	2,075	(1,637)	(7,382)
- *Insurance technical provisions*	(1,236)	(1,745)	(2,803)
Pre-tax profit	**12,445**	**8,390**	**8,250**
Corporate income tax	(3,154)	(1,480)	(1,514)
Net profit	**9,291**	**6,910**	**6,736**

In 2007 pre-tax profit of the SID Bank Group amounted to EUR 8.2 million.

Net interest totalled EUR 13.0 million in 2007, posting an increase of 24.8 percent on the previous year. Net income from insurance climbed 38.7 percent, reaching EUR 6.8 million. Non-interest income is made up mainly of fees and commissions from loans and guarantees, factoring and treasury transactions and income from reimbursement SID Bank receives from the state subject to the Agreement on the regulation of mutual relationships concerning implementation of Chapter II of the ZZFMGP. Net non-interest income reached EUR 6.6 million, climbing 49.5 percent above the 2006 figure.

In 2007 operating costs totalled EUR 10.8 million, up 32.3 percent from 2006, mostly due to higher costs of labour related to an increase in employee numbers. Operating costs relative to total assets lowered from 1.19 percent in 2006 to 0.91 percent in 2007.

Consolidated balance sheet summary

In EUR thousand	31.12.2005	31.12.2006	31.12.2007
Bank deposits	0	0	22,637
Deposits from non-bank sectors	0	43	32,878
Loans of banks	545,446	780,597	1,211,554
Loans of clients other than banks	9,589	5,893	0
Debt securities	0	0	7,898
Provisions	17,504	21,610	26,956
- *Insurance technical provisions*	13,604	18,322	23,803
Other liabilities	10,525	9,486	7,521
Equity	114,392	119,702	127,590
Total liabilities	**697,457**	**937,331**	**1,437,034**
Contingency reserves	93,131	102,704	107,278
IREP	0	1,461	5,395

As at 31 December 2007, consolidated total assets of the SID Bank Group stood at EUR 1.4 billion, showing a year-on-year increase of 53.3 percent.

There was a 55.2 percent increase in bank loans, making up EUR 1.2 billion or 84.3 percent of total liabilities.
The equity of the SID Bank Group stood at EUR 127.6 million, rising 6.6 percent in 2007 mainly due to generated net profit. Equity accounted for 8.9 percent of total liabilities, compared with 12.8 percent of total liabilities as at 31 December 2006.

In EUR thousand	31.12.2005	31.12.2006	31.12.2007
Available-for-sale financial assets	45,043	54,620	63,034
Loans to banks	457,612	603,855	922,927
Loans to clients other than banks	179,598	256,559	423,099
Tangible fixed assets and intangible assets	3,948	6,697	6,806
Long-term investments in equity of SID Bank Group companies	9	29	419
Other receivables	11,247	15,571	20,749
- Reinsurance contracts	10,307	14,252	17,570
Total assets	**697,457**	**937,331**	**1,437,034**
Contingency reserves	93,131	102,704	107,278
IREP	0	1,461	5,395

In 2007 the growth in total assets again primarily resulted from intensive financing of international business transactions and a rise in factoring services. Loans to banks increased by 52.8 percent to EUR 922.9 million. There was also a 64.9 percent increase in loans to non-bank customers, making up EUR 423.1 million at the end of 2007.

Key figures

	2005	2006	2007
Equity:			
*- Capital adequacy**		19.8%	8.6%
Profitability:			
- Interest margin	1.54%	1.28%	1.10%
*- Financial intermediation margin***	2.23%	1.82%	1.65%
- Return on assets before tax	2.05%	1.03%	0.70%
- Return on equity before tax	11.28%	7.17%	6.67%
- Return on equity after tax	8.43%	5.90%	5.45%
Operating costs:			
- Operating costs / average assets	1.21%	1.19%	0.91%
Liquidity:			
- Liquid assets / short-term deposits to non-banking customers	-	0.10%	1.43%
- Liquid assets / average assets	-	0.03%	0.01%
Number of employees in SID Bank Group	143	188	241
The figure includes all employees of the PRVI FAKTOR Group and CMSR.			

* The computations consider investments from own SID Bank assets, investments from sources backed by the guarantees of the Republic of Slovenia and 50 percent of investments made by the PRVI FAKTOR Group.
** The computations do not consider income from PKZ insurance business.

Employees of the SID Bank Group

Number of employees in the SID Bank Group as at 31 December 2007:

Company	Number
SID Bank	69
PKZ	40
PRO KOLEKT Group	15
PRVI FAKTOR Group	108
CMSR	9
Total	241

At the end of 2007, PRO KOLEKT Group employed 15 people, seven of whom work in Ljubljana, three in Zagreb and one in each of the other PRO KOLEKT Group companies. The PRVI FAKTOR Group ended the year 2007 with a total of 108 employees, 35 of whom work in the Ljubljana company whereas another 39 work in Zagreb, 25 in Belgrade and nine in Sarajevo. The SID Bank Group employs a total of 241 people, 21 percent of whom had completed secondary education, 12 percent have earned a college degree, 62 percent a university degree, 4 percent hold master's level degrees and one percent of employees hold doctorate level degrees.

7.2. SID – Prva kreditna zavarovalnica d.d., Ljubljana

In 2007, the company was successful in significantly increasing the volume of existing contracts and premiums. The year was also a success in terms of financial results. The volume of short-term credit insurance contracts entered into by PKZ in 2007 was EUR 4.7 billion, a 25 percent increase on the business volume generated by short-term export credit insurance in 2006.

Gross premiums written reached EUR 14.1 million, rising 25 percent from 2006, which is largely due to the growth of insured business with existing clients (a result of GDP and export growth) and the insurance of new clients. Claims paid amounted to EUR 4.2 million, representing 30 percent of premiums written. Recoveries (paid to PKZ) maintained the 2006 level, at EUR 0.8 million accounting for 18 percent of claims paid.

Liabilities from insurance contracts reached EUR 23.8 million, climbing 30 percent year-on-year. Insurance liabilities less reinsurers' share rose 39 percent from 2006, with the difference in growth rates largely due to the reinsurance scheme changing in 2007 to include a higher own share of the company. Liabilities from insurance contracts (formerly insurance technical provisions) no longer include equalization provisions since, following the adoption of the International Financial Reporting Standards, these now appear as a separate equity item called credit risk reserve.

Gross profit was EUR 1.9 million, up significantly from EUR 1.4 million in 2006. In respect of the changes to the required credit-risk reserve established to offset credit risk to equity and the related tax effects, net profit for 2007 reached EUR 1.8 million, coming close to EUR 1.9 million posted in 2006. Equity stood at EUR 18.7 million at the end of 2007, with the credit risk reserve amounting to EUR 9.5 million of this amount (in 2006 equity stood at EUR 18.4 million, and the credit risk reserve totalled EUR 10.0 million).

In 2008, PKZ will continue to provide domestic and export credit insurance against commercial and non-commercial risks. By monitoring the sales of the insured in their respective domestic and foreign markets, by carefully checking their buyers and though the prompt processing of claims, PKZ will provide its customers with unparalleled support in their financial receivables risk management. In addition, the insurance company will continue to look for new clients and present its services through personal visits and presentations as well as by providing information over the phone, mail and via the Internet PKZ estimates that the recession which has hit the US and its devastating effects on the rest of the world and the delicate situation in Serbia and Kosovo will have a two-fold effect on the company's business. On the one hand, these events will increase the number of claims and negatively affect the loss ratio and the volume of Slovenian exports and GDP growth; on the other hand, insecurity is known to fuel demand for credit insurance.

In Slovenia, the market penetration (insurance share in GDP) in the segment of credit insurance covered by PKZ has already exceeded the European average. That is why in 2008 PKZ will have to strengthen its efforts to secure further growth of business. The 2006 change in insurance legislation enabled PKZ to conclude indirect insurance transactions and thereby secure its presence in the markets of former Yugoslavia where its advance knowledge of risks provides it with an opportunity to enact its competitive advantage. Together will other companies of the SID Bank Group, PKZ will strive to secure its presence and growth in these markets. PKZ will continually study the market possibilities for new and upgraded credit insurance products and these will be the focus of its research and development activities. The existing information system will be upgraded to include several applications enabling additional analyses. PKZ will also continue developing its support system for on-line business with the insured (PKZ-Net).

To ensure better efficiency of business operations with regard to contracts for excluded transactions, PKZ has transferred several activities to SID Bank. In terms of ownership and business performance, the operations of PKZ remain an inseparable part of the SID Bank Group, which ensures that regardless of legal changes the synergetic effects of these complementary facilities will be maintained.

7.3. PRO KOLEKT Group

In 2007, the business operations of PRO KOLEKT, Ljubljana were focused on ensuring further growth in business volume and on developing a network of subsidiaries in the territory of the former Yugoslavia.

During the three years of its operation, PRO KOLEKT managed to set up a network of debt collection agencies in over 100 countries. In 2007, the company acquired 483 collection claims with a total value of EUR 14.2 million and finalised 243 cases, recovering EUR 4.2 million of receivables (EUR 2.2 million in 2006). Moreover, the company acquired several new foreign clients, including reputed companies such as Atradius and Intrum Justitia, so that at present foreign clients account for 38 percent of the company's turnover. In the future, PRO KOLEKT expects a rise in demand from foreign debt collection agencies, with whom it has already been in business, and from the credit insurance companies, members of the Berne Union.

In 2007, PRO KOLEKT, Ljubljana generated income amounting to EUR 346.6 thousand. The company closed the financial year with a loss totalling EUR 144.2 thousand. The reasons for the loss lie in the rapid expansion of the company, i.e. establishment of a network of subsidiaries in South East Europe, and the high expenses associated with setting up new enterprises.

Although three of its new subsidiaries only began operating in the second half of 2007, the PRO KOLEKT Group acquired 1,029 collection claims (pushing 8 percent above the annual plan) totalling EUR 25.5 million (13 percent above the plan). The Group finalised 508 cases (27 percent above the plan) and recovered EUR 5.2 million of receivables (16 percent above the plan).

PRO KOLEKT, Ljubljana intends to continue the expansion of its operations in 2008. In accordance with the Action Plan on the Expansion of the PRO KOLEKT Group to the Markets of South Eastern Europe, drawn up on the basis of guidelines stated in the Action Strategy of SID Bank for the period 2006-2010, PRO KOLEKT established its subsidiaries in Croatia, Macedonia, Bosnia and Herzegovina, Romania and Bulgaria. It signed Agency Agreements in Hungary and Kosovo and expects to sign similar agreements in Montenegro and Albania by mid-2008. Thus PRO KOLEKT has acted in line with its strategic orientation to set up subsidiaries in South East Europe, which is the territory responsible for 76 percent of all collection cases dealt with by the company. In its 2008 plans, the PRO KOLEKT Group intends to acquire 2166 new collection claims with a total value of EUR 35 million. The Group intends to generate approximately EUR one million in turnover.

7.4. PRVI FAKTOR Group

In 2007, the high growth rate of the PRVI FAKTOR Group was maintained. The company purchased EUR 802.7 million worth of accounts receivable, an increase of 60 percent from 2006. PRVI FAKTOR, Zagreb acquired EUR 348.4 million in receivables, PRVI FAKTOR, Ljubljana EUR 249.8 million, PRVI FAKTOR, Belgrade EUR 175.1 million and PRVI FAKTOR, Sarajevo EUR 23.8 million worth of accounts receivable. The subsidiaries contributed nearly 70 percent of the total Group turnover, and the share of subsidiaries in the consolidated business result is even higher.

The PRVI FAKTOR Group finances most receivables arising from deliveries of goods or services among the entities within the country. In the total business volume, factoring of domestic receivables accounted for 85.7 percent, export factoring for 8.2 percent and import factoring for 6.1 percent. PRVI FAKTOR is a member of several networks of factoring companies (Factors Chain International and International Factors Group) and has, through these networks, generated EUR 26.5 million of business (insurance and financing of export-import related receivables), i.e. 3.3 percent of the total company's turnover.

The growth in business volume led to an increase in consolidated total assets which stood at EUR 325.0 million as at 31 December 2007, marking a year-on-year rise of 56.6 percent. In terms of total assets, the largest company in the PRVI FAKTOR Group is PRVI FAKTOR, Zagreb, with total assets amounting to EUR 159.0 million at the end of the year.

The growth in business volume is also evident in business results. Net profit of the PRVI FAKTOR Group reached EUR 6.2 million in 2007 and was 2.7 times higher than in 2006. The highest profit in the amount of EUR 4.4 million was generated by PRVI FAKTOR, Belgrade.

The total assets of PRVI FAKTOR, Ljubljana stood at EUR 123.8 million, posting a year-on-year rise of 84.2 percent. In 2007 pre-tax profit amounted to EUR 1.7 million (2006: EUR 185 thousand).

In 2008 the primary objective of the PRVI FAKTOR Group is to ensure stable growth of the company and strengthen its market position with existing clients. The Group plans to acquire receivables in the amount of EUR 898 million and generate pre-tax profit of EUR 4.9 million. The PRVI FAKTOR Group will pay special attention to introducing information support for most back office and management processes.

7.5. CMSR

In 2007 the Centre for International Cooperation and Development (CMSR) performed its key tasks: closer cooperation with its new founder, SID Bank; expansion of existing activities; and took up technical and operational tasks linked to international development cooperation on the basis of an authorisation issued by the Government of the Republic of Slovenia and pursuant to the International Development Cooperation Act.

Furthermore, CMSR strengthened its position as a professional research institution, recognized by regular and new partners who maintain and upgrade their cooperation with the Centre.

The first steps of implementing bilateral developmental support, which CMSR provided in 2007, indicated a strong need for grants awarded by the Republic of Slovenia for development projects in partner countries. As the project cycle lasts a minimum of 6 months from the first contact made to the signing of the contract, not all available funds were allocated (CMSR plans to invest 12 percent of remaining funds in 2008). Three projects were realized with a total value of EUR 1.3 million. From funds directly made available by grants Slovenian companies secured EUR 5 million worth of transactions in the countries receiving development aid in 2007. The criterion applied in the selection of the sectors and partners supported with Slovenian grants was that they should open up to Slovenian companies business opportunities which, although hard to assess today, are potentially limitless as these projects have also set the (technical and quality) standards which will, given an appropriate business strategy of these entities, ensure a long-term presence of Slovenian companies in partner markets.

CMSR continued its long and fruitful cooperation with SID Bank, increasing its volume of business with the Bank mainly due to a higher number of countries for which it prepared country risk assessments. In 2007 CMSR was selected to revise the content of the Internet portal named *Izvozno okno* (Export Window) posted by the Public Agency for Entrepreneurship and Foreign Investment – JAPTI. The value of funds put out to tender was considerably lower than in 2006 (down by 38.4 percent), largely as a result of a drop in budgetary resources allocated to the project. Together with the Ministry of Foreign Affairs, CMSR implemented a project aimed at estimating living expenses abroad, which was put on hold in 2006 for financial reasons.

In 2007, CMSR continued its publication of the magazine *Mednarodno poslovno pravo* (International Business Law). The publication Doing Business In Slovenia, a guide which provides all key information on the Slovenian business environment in the English language, was ready for printing at the end of 2007, and came out at the beginning of 2008. Since January 2007 the guide is available in electronic form on FDI.net, a World Bank portal.

CMSR received no budgetary resources for its operations; its revenue was generated exclusively from own operations. Net revenue surplus in the business year amounted to EUR 4.5 thousand.

8. Appendices

8.1. Management Bodies of SID Bank as at 31 December 2007

Supervisory Board

- Stanislava Zadravec Caprirolo, M..I.A. – Chairperson
  Ministry of Finance
- Helena Kamnar, MSc – Deputy Chairman
  University of Ljubljana
- Stanislav Berlec
  Ministry of Finance
- Jožko Čuk, MSc
- Ivan Govše
  Ministry of Economy
- Dr Marko Jaklič
  Faculty of Economics, University of Ljubljana
- Dr Robert Kokalj
  Ministry of Foreign Affairs

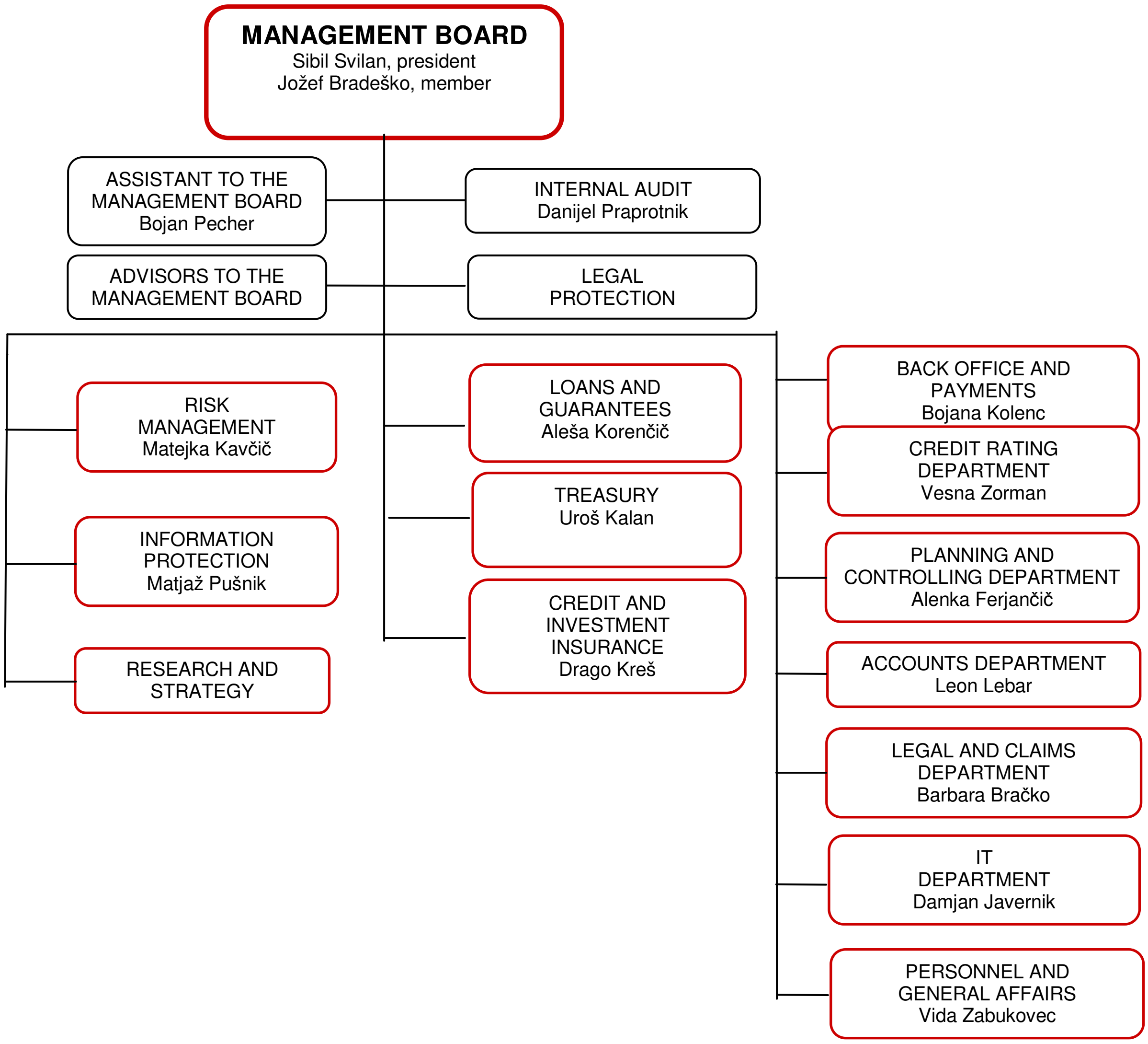
International Trade Promotion Commision

- Sabina Koleša, MSc – Chairperson
  Ministry of Economy
- Janko Burgar, MSc – Deputy Chairperson
  Ministry of Economy
- Dr Robert Kokalj
  Ministry of Foreign Affairs
- Janez Krevs
  Bank of Slovenia
- Monika Pintar Mesarič
  Ministry of Finance
- Cveto Stantič, MSc
  Chamber of Commerce and Industry of Slovenia

Management Board

- Sibil Svilan, MSc, President
- Jožef Bradeško, Member

8.2. Organisation Chart of SID Bank as at 31 December 2007



II. Separate financial statements of SID Bank

Content

Statement of the Management Board on the separate financial statements of SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana

On 10 March 2008 the Management Board confirmed the financial statements of SID Slovenska izvozna in razvojna banka, d.d., Ljubljana for the year ended 31 December 2007. Separate financial statements have been compiled in line with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The Management Board reasonably believes that SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana has sufficient business resources to continue its operations. Therefore, the financial statements were justifiably compiled on a going concern basis.

The management is responsible for the following:

- Appropriate accounting policies which are applied consistently,
- Business estimates and judgements that are reasonable and prudent,
- Any material deviations from the applied accounting standards are appropriately disclosed and explained,
- Financial statements are prepared on a going concern basis for the SID Bank group, unless there are substantiated reasons to anticipate discontinuation of operation.

The Management Board is responsible for maintaining bookkeeping documents and records which disclose the financial status of SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana with reasonable accuracy at all times. Furthermore, the Management Board is responsible for the preparation of financial statements in accordance with the legislation and regulations of the Republic of Slovenia. The Management Board must take all necessary steps to protect the assets of SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana and carry out all the required procedures to prevent or discover potential fraud or violation.

SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana

Jožef Bradeško	Sibil Svilan, MSc,
Member of Management Board	President of Management Board

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

to the owners of SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana

Report on the Financial Statements

We have audited the accompanying separate financial statements of SID – Slovenska izvozna in razvojna banka d.d., Ljubljana (hereinafter "the Bank"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards applicable in the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the Bank's financial position as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards applicable in the EU.

Without qualifying our opinion, we draw attention to Note "5.4.2. – Consolidated financial statements of the SID Bank Group" to the separate financial statements where it is indicated that the Bank is the controlling company of the group Slovenska izvozna in razvojna družba, d.d., Ljubljana (hereinafter "the Group") and that the separate financial statements prepared in accordance with International Financial Reporting Standards are compiled and disclosed separately. On 24 April 2008, an unqualified opinion was issued on the Group's consolidated financial statements as at 31 December 2007.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Bank's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Andreja Bajuk Mušič
Certified Auditor
Andreja Bajuk Mušič

Yuri Sidorovich
President of the Board

Ljubljana, 24 April 2008

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

1. Separate balance sheet as at 31 December 2007

In EUR thousand	Notes	31.12.2007	31.12.2006
Cash and balances with the central bank	5.5.1.	298	0
Financial assets held for trading	5.5.2.	129	157
Available-for-sale financial assets	5.5.3.	40,728	35,411
Credit	5.5.4.	1,192,496	758,517
- Loans to banks		*915,674*	*594,174*
- Loans to clients other than banks		*276,822*	*164,343*
Property, plant and equipment	5.5.5.	5,091	5,152
Intangible assets	5.5.6.	600	609
Long-term investments in equity of subsidiaries, associates and joint ventures	5.5.7.	7,712	6,322
Corporate income tax assets	5.5.8.	1,373	55
- Assets for corporate income tax		*1,229*	*0*
- Assets for deferred taxes		*144*	*55*
Other assets	5.5.9.	290	254
TOTAL ASSETS OF SID BANK		**1,248,717**	**806,477**
INVESTMENTS FROM CONTINGENCY RESERVES	5.5.10.	**107,278**	**102,704**
INTEREST RATE EQUALISATION PROGRAMME (IREP) INVESTMENTS	5.5.11.	**5,395**	**1,461**
Financial liabilities held for trading	5.5.12.	186	163
Financial liabilities measured at amortised cost	5.5.13.	1,137,069	694,395
- Bank deposits		*26,205*	*0*
- Deposits of clients other than banks		*32,880*	*43*
- Loans of banks		*1,069,125*	*694,352*
- Debt securities		*8,859*	*0*
Provisions	5.5.14.	883	1,742
Corporate income tax liabilities	5.5.15.	2,190	2,558
- Tax liabilities		*2,163*	*2,521*
- Deferred tax liabilities		*27*	*37*
Other liabilities	5.5.16.	835	3,221
TOTAL LIABILITIES		1,141,163	702,079
Share capital	5.5.17.	89,600	38,906
Capital reserves	5.5.18.	1,139	27,631
Revaluation surplus	5.5.19.	(331)	130
Reserves from profit (including profit retained)	5.5.20.	17,566	38,747
Treasury shares	5.5.21.	(1,324)	(1,324)
Net profit for the year		904	308
TOTAL EQUITY		107,554	104,398
TOTAL LIABILITIES AND EQUITY OF SID BANK		**1,248,717**	**806,477**
LIABILITIES FROM CONTINGENCY RESERVES	5.5.23.	**107,278**	**102,704**
IREP LIABILITIES	5.5.24.	**5,395**	**1,461**

Accounting policies and notes are an integral part of the separate financial statements.

2. Separate income statement for the 2007 financial year

In EUR thousand	Notes	2007	2006
Interest and similar income		47,547	27,333
Interest expenses and similar expenses		(38,810)	(19,834)
Net interest	5.6.1.	8,737	7,499
Revenues from dividends	5.6.2.	1,031	33
Revenues from commissions		566	335
Expenses for commissions		(101)	(83)
Net fees and commissions	5.6.3.	465	252
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss	5.6.4.	(17)	(33)
Net gain/loss from financial assets and liabilities held for trading	5.6.5.	20	130
Net gain/loss from exchange rate differences	5.6.6.	(258)	(482)
Net gains/losses from derecognition of assets, excluding non-current assets		0	(6)
Other net operating profits/losses	5.6.7.	2,593	2,627
Administrative costs	5.6.8.	(5,240)	(4,767)
Depreciation and amortisation	5.6.9.	(562)	(432)
Provisions	5.6.10.	709	1,216
Impairments	5.6.11.	(3,387)	(2,575)
Income from ordinary operations		**4,091**	**3,462**
Corporate income tax related to ordinary activities	5.6.12.	(451)	(884)
Deferred taxes		(24)	(21)
Net profit from ordinary activities		**3,616**	**2,557**
Net profit for the year		**3,616**	**2,557**

Accounting policies and notes are an integral part of the separate financial statements.

3. Separate cash flow statement for the 2007 financial year

In EUR thousand	2007	2006
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit or loss before tax	4,091	3,462
Depreciation and amortisation	562	432
Impairments of tangible fixed assets, investment property, intangible long-term assets and other assets	(42)	(13)
Net (profits)/losses due to exchange rate differences	258	482
Net (profits)-losses due to sales of tangible fixed assets and investment real estate	0	6
Other (profits)/losses due to investments	(1,031)	33
Net unrealised profit from capital revaluation adjustment of available-for-sale financial assets (excluding the effect of deferred tax)	(416)	227
Other net profit and loss adjustments before tax	(709)	(1,216)
Cash flows from operating activities before changes in operating assets and liabilities	2,713	3,413
b) (Increase)/decrease in operating assets	(468,582)	(145,304)
Net (increase)/decrease in financial assets recognised at fair value through profit and loss	18	0
Net (increase)/reduction in available-for-sale financial assets	(5,317)	(8,564)
Net (increase)/reduction in loans	(463,244)	(136,866)
Net (increase)/reduction in other assets	(39)	126
c) Increase/(decrease) in operating liabilities	437,828	172,037
Net increase/(reduction) in financial liabilities held for trading	23	(166)
Net increase/(decrease) in deposits and loans measured at amortised cost	440,350	174,682
Net increase/(reduction) in other liabilities	(2,545)	(2,479)
d) Cash flows from operating activities (a+b+c)	(28,041)	30,146
e) (Paid)/refunded corporate income tax	(2,007)	(3,440)
f) Net cash flows from operating activities (d+e)	(30,048)	26,706
B. CASH FLOWS FOR INVESTING ACTIVITIES		
a) Inflows from investing activities	1,276	270
Proceeds from the sale of property, plant and equipment and investment property	1	66
Proceeds from the sale of intangible long-term assets	244	204
Other inflows from investing activities	1,031	0
b) Outflows for investing activities	(2,085)	(3,252)
(Outflows for the acquisition of tangible fixed assets and investment property)	(366)	(2,990)
(Outflows for the acquisition of intangible long-term assets)	(329)	(242)
(Outflows for the acquisition of equity investments in the capital of subsidiaries, associates and joint ventures)	(1,390)	(20)
c) Net cash flows from investing activities (a-b)	3,361	3,522
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Financing outflows	0	(1,324)
(Outflows for the purchase of treasury shares)	0	(1,324)
Net cash flows from financing activities (a-b)	0	1,324
D. Effect of exchange rate fluctuations on cash and cash equivalents	(67)	0
F. Net increase in cash assets and cash equivalents (Ae+Bc+Cc)	(26,687)	31,552
G. Cash and cash equivalents at the beginning of the period	39,339	7,787
H. Cash and cash equivalents at the end of period (D+E+F+G)	12,585	39,339

3.1. Cash equivalents

	31.12.2007	31.12.2006
Cash in business account	63	56
Bank deposits, of which:		
- NLB d.d.	648	17,160
- Probanka d.d.	1,101	10,516
- Unicredit banka Slovenija d.d.	3,722	0
- Factor banka d.d.	0	5,967
- Gorenjska banka d.d.	0	5,640
- Volksbank d.d.	7,051	0
Total	12,585	39,339

Accounting policies and notes are an integral part of the separate financial statements.

4. Separate statement of changes in equity

For the 2007 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Profit reserves	Retained earnings	Treasury shares	Net profit	Total equity
OPENING BALANCE FOR THE PERIOD (1 January 2007)	**38,906**	**27,631**	**130**	**21,439**	**17,308**	**(1,324)**	**308**	**104,398**
Net gains/losses from revaluation of available-for-sale financial assets	0	0	(461)	0	0	0	0	(461)
Total net profit/loss after tax, recognised directly in equity – revaluation surplus	**0**	**0**	**(461)**	**0**	**0**	**0**	**0**	**(461)**
Net profit/loss for the financial year (from the income statement)	0	0	0	308	0	0	3,308	3,616
Total net profit/loss for financial year recognised in equity	**0**	**0**	**(461)**	**308**	**0**	**0**	**3,308**	**3,155**
Allocation of net profit to profit reserves	0	0	0	2,712	0	0	(2,712)	0
Capital increase from existing components of equity	50,694	(26,492)	0	(6,893)	(17,308)	0	0	0
CLOSING BALANCE FOR THE PERIOD (31 December 2007)	**89,600**	**1,139**	**(331)**	**17,566**	**0**	**(1,324)**	**904**	**107,554**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR							**904**	

For the 2006 financial year

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	profit reserves	Retained earnings	Treasury shares	Net profit	Total equity
OPENING BALANCE FOR THE PERIOD (1 January 2006)	**38,906**	**27,631**	**220**	**17,478**	**17,308**	**0**	**1,711**	**103,254**
Net gains/losses from revaluation of available-for-sale financial assets	0	0	(90)	0	0	0	0	(90)
Total net profit/loss after tax, recognised directly in equity – revaluation surplus	**0**	**0**	**(90)**	**0**	**0**	**0**	**0**	**(90)**
Net profit/loss for the financial year (from the income statement)	0	0	0	0	0	0	2,557	2,557
Total net profit/loss for financial year recognised in equity	**0**	**0**	**(90)**	**0**	**0**	**0**	**2,557**	**2,467**
Net purchase/sale of treasury shares	0	0	0	0	0	(1,324)	0	(1,324)
Allocation of net profit to profit reserves	0	0	0	3,960	0	0	(3,960)	0
CLOSING BALANCE FOR THE PERIOD (31 December 2006)	**38,906**	**27,631**	**130**	**21,438**	**17,308**	**(1,324)**	**308**	**104,397**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR							**17,616**	

Accounting policies and notes are an integral part of the separate financial statements.

Distributable profit

In EUR thousand	2007	2006
Net profit for the year	3,616	2,557
Portion of net profit allocated to reserves for own interests	0	(1,324)
Portion of net profit allocated to statutory reserves	(1,808)	(616)
Portion of net allocated to other profit reserves	(904)	(308)
Transfer to retained profit	0	0
Undistributed net profit for the year	904	309
Retained earnings	0	17,308
Distributable profit	904	17,617

When compiling the annual report, the Management Board formed statutory reserves in the amount of EUR 1,808 thousand from net profit totalling EUR 3,616 thousand pursuant to the first paragraph of Article 230 of the Companies Act (ZGD-1).

Pursuant to the resolution of the Supervisory Board, other profit reserves were formed in the amount of EUR 904 thousand in accordance with the third paragraph of Article 230 of ZGD-1.

As at 31 December 2007, distributable profit amounted to EUR 904 thousand, including the unused profit for 2007. The Management Board and the Supervisory Board propose that the General Meeting of SID Bank allocate the net distributable profit for 2007 in the amount of EUR 904 thousand to other profit reserves.

5. Notes to separate financial statements

Items 1 to 4 of this report present the balance sheet as at 31 December 2007, the income statement for 2007, the cash flow statement for 2007 and the statement of changes in equity for the year 2007 of SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana (separate statements). Statements also include comparable data as at 31 December 2006 or for the financial year 2006.

Additional notes to individual financial statements:
- Item 1 and APPENDIX 1 present separate balance sheets, including the company's liabilities and investments from its own sources and from sources backed by the guarantee of the Republic of Slovenia (operations for own account).
- Item 2 and APPENDIX 2 present the separate income statement relating to operations for own account.
- Item 3 present the separate cash flow statement relating to operations for own account.

Separate financial statements are presented in EUR thousands. Assets and liabilities, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the balance sheet date. Revenues and expenses, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the day they occur or are recorded.

5.1. Basic information

SID - Slovenska izvozna in razvojna banka d.d., Ljubljana (hereinafter: SID Bank or SID) with registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia.

SID Bank's share capital stood at EUR 89,600 thousand, divided into 932,354 ordinary registered no-par value shares issued in several issues. The Republic of Slovenia holds the majority stake in SID Bank (91.15%). Other shareholders of SID Bank include banks, insurance companies, the Chamber of Commerce and Industry of Slovenia (CCIS) and many other Slovene companies (as at 31 December 2007, SID Bank had 85 shareholders).

For its own account, SID Bank:
- Provides pre-shipment and post-shipment financing of international business transactions and international business cooperation,
- Issues guarantees,
- Enters into money, currency, capital and derivative market transactions,
- Provides credit rating and other credit information.

On behalf of the Republic of Slovenia, SID Bank as an authorised ECA performs:
- Short-term export credit insurance and reinsurance against non-commercial and other non-marketable risks;
- Investment insurance against non-commercial risks,
- Medium-term export credit insurance against commercial and/or non-commercial risks;
- Interest Rate Equalisation Programme (IREP) in financing international business transactions, and
- Other transactions on special authorisations.

The above division of the operations of SID Bank arises from the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP) which entered into force on 14 February 2004 and regulates the majority of SID Bank's operations.

Activities performed by SID Bank for its own account are financed from its own resources while international commercial transactions are financed in accordance with the ZZFMGP, primarily by borrowing on foreign financial markets in its own name and on its own behalf and by the guarantee of the Republic of Slovenia. The operations of SID Bank for its own account from its own resources and operations other than insurance operations which are not subject to ZZFMGP, are governed by bank regulations.

In view of the above, the separate financial statements of SID Bank comprise the assets and liabilities or results of operations on its own behalf, while operations carried out on behalf of the Republic of Slovenia are presented in separate financial statements (further information on these operations is provided under Item 6.3). In addition, SID Bank also compiles separate financial statements for operations based on its own sources and the financing of international business operations pursuant to ZZFMGP.

As at 31 December 2007 SID Bank had 69 employees (as at 31 December 2006 there were 68).

SID Bank is a large company pursuant to Article 55 of ZGD-1.

5.2. Accounting policies

Separate financial statements of SID Bank and the notes thereto are compiled in accordance with the International Standards of Financial Reporting as adopted by the European Union (hereinafter: the IFRS), taking into account the regulations of the Bank of Slovenia.

In compiling these separate financial statements the following basic accounting assumptions were taken into account:

- Accrual basis,
- Going concern,
- True and fair presentation under the circumstances of a fluctuating value of the euro and of individual prices, disregarding hyperinflation.

Accounting policies shall only change if the change:

- Is required by a standard or an interpretation; or
- Results in the financial statements providing more reliable and relevant information.

Below we present the most important accounting policies which serve as the measurement basis used for the compilation of the separate financial statements and other accounting policies that are relevant to the understanding of the separate financial statements:

5.2.1. Cash and cash equivalents

Cash assets consist of cash and cash equivalents. Cash comprises cash on hand, cash in bank accounts and cash in transit. Cash assets are disclosed separately for local and the foreign currencies.

In the separate balance sheet, cash on hand and the mandatory reserves are a constituent part of the item cash and balances with the central bank. Balances of bank accounts and cash in transit are part of the item loans.

In the separate cash flow statement, individual items with original maturity of less than three months after acquisition are disclosed as cash and cash equivalents: all cash and bank deposits and loans

All items of cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash.

5.2.2. Financial assets held for trading

When operating on its own behalf and for its own account, SID Bank concludes derivatives contracts which represent a small initial contribution compared to the nominal value of the contract. Derivative financial instruments are currency forwards and interest swaps, used primarily for hedging against currency and interest risks encountered daily during operations on financial markets.

Upon initial recognition at historical/amortised cost, derivatives are disclosed at fair value determined, depending on the instrument, on the basis of quoted market prices or according to the method of discounted future cash flows. Gains or losses arising from derivative financial instruments are disclosed in the income statement as realised gains or losses from financial assets and in the balance sheet as assets if their fair value is positive, and as liabilities, if their fair value is negative.

5.2.3. Available-for-sale financial assets

Pursuant to IAS 39, SID Bank classifies its financial investments in securities as “available-for-sale financial assets”, since they are purchased with the aim of balancing its current liquidity.

Available-for-sale financial assets include debt securities and capital instruments.

Securities are initially recognised taking into account the date of the transaction (trading date) at cost which typically equals the purchase price. The purchase cost includes additional costs directly attributable to the acquisition, and increase the purchase value.

The usual dates of purchase/sale of securities are set at T + 3 days for foreign securities and T + 2 days for treasury bills, while domestic securities are usually settled on the date of the contract on the purchase/sale of securities. In all securities, interest is paid until the day the contractual amount is settled.

The amortised cost of debt instruments (bonds) is calculated upon initial recognition according to the effective interest rate method which equally distributes the revenues over the entire period for which the debt instrument is held, i.e. from the purchase until maturity – the calculation is based on yield until maturity.
After the initial recognition, debt and equity securities are disclosed on the basis of quoted market prices. The differences between the market price and the amortised cost (unrealised gains) of debt instruments and the differences between the fair value and the acquisition cost in capital instruments are disclosed under a separate component of equity – revaluation surplus. Both positive and negative differences are possible; the former increase and the latter decrease the revaluation surplus. If the negative differences are permanent and there is objective evidence of impairment, profit or loss from ordinary operations under the item impairments is reduced by the amount of losses; first, the accumulated loss recognised directly in revaluation surplus is eliminated.

Exchange rate differences arising from debt instruments are recognised in the income statement, while exchange rate differences arising from revaluation to fair value are recognised in the revaluation surplus.

Exchange rate differences arising from capital instruments are recognised together with the effects of revaluation to the market value.

5.2.4. Credit

The item includes loans to banks, loans to clients other than banks and banks deposits.

Loans and deposits are recognised when cash is transferred to the client and are disclosed at amortised cost comprising the initial value of the principal reduced by potential repayments and increased by accrued interest for the period and charged loan approval fees.

Revenues from charged loan approval fees are evenly distributed over the entire period of loan repayment. The Management Board believes that the even distribution of revenues arising from these commissions over the loan repayment period is a good approximation for the recognition of these revenues using the effective interest rate method.

5.2.5. Impairment of loans and guarantees

The financial assets in this item also include loans to banks, loans to clients other than banks and bank deposits and guarantees.

SID Bank classifies financial assets into individually or collectively impaired assets. Individually impaired balance and off-balance sheet items include:

- Non-risk balance sheet items,
- Exposure to clients where there is unbiased evidence for impairment for at least one financial asset and the total amount of impairment is greater for the client than it would be in the case of group impairment.

Total exposures which are not individually impaired are classified into groups on the basis of the type of financial asset and the client's risk category. The level of impairment in group impairment therefore depends on the type of financial asset and risk category of the client.

The estimate of losses for group impairment is based on a three-year average of estimated losses from financial assets in individual groups.

If during the individual assessment of financial assets impartial evidence of impairment exists, the recoverable amount of the financial asset must be estimated. Impairment shall be measured for each financial asset that is individually significant. Impairment of financial assets that are not individually significant may be measured collectively.

In the calculation of losses from credit risk of an individually significant financial asset, prime and adequate security are taken into account as well as other collateral which fully meets the conditions stipulated under Point 9 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks.

If financial assets are assessed individually but impairment is not necessary and consequently not recognised, these assets are subject to collective assessment in the full amount.

5.2.6. Property, plant and equipment

Tangible fixed assets include real estate, equipment, and small tools.

Upon their initial recognition, tangible fixed assets are valued at purchase cost. This consists of the purchase price, import duties and non-refundable purchase taxes as well as directly attributable costs of bringing the asset to the condition necessary for the intended use. Subsequent costs incurred in connection with a component of property, plant and equipment may be disclosed as maintenance costs or an increase in the purchase cost of the asset. The purpose of these costs is described as the repair and maintenance of the item of property, plant and equipment. Subsequent increase in the purchase cost includes all subsequent costs related to an item of property, plant and equipment if their value of use increases the future economic benefits related to such asset.

After initial recognition, an item of property, plant and equipment is carried at its purchase cost less any accumulated depreciation and any accumulated impairment losses.

Land and buildings are accounted for separately, even when they are acquired together.

Depreciation of an item of property, plant and equipment when after it is available for use. Amortisation is calculated individually on a straight-line basis. SID Bank uses the following depreciation rates:

Buildings	5.0%
Computer equipment	50.0%
Cars	12.5%
Computer software	20.0%
Other equipment	25.0%
Furniture	11.0%
Small tools	25.0%

Tangible fixed assets are impaired when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognised as an expense in the income statement. At the balance sheet date at the end of each financial year it is assessed whether there are any signs of impairment of an asset. If such signs exist, the recoverable value of the asset is assessed, equalling:

- Fair value less costs of sale or
- Value in use, whichever is higher.

The carrying amount of an item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected from its future use or disposal.

5.2.7. Intangible assets

Intangible fixed assets include investments in software and property rights. The useful life of the intangible asset is assessed as definite. If the useful life is definite, the asset is estimated and amortised at the rate of 20%. Amortisation is calculated individually on a straight-line basis. SID Bank tests an intangible asset for impairment by comparing its recoverable amount with its carrying amount at the end of each financial year at a minimum.

After initial recognition, an intangible asset is carried at its purchase cost, i.e. its purchase cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation shall cease at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

Intangible assets are impaired, when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognised as an expense in the income statement. At the balance sheet date at the end of each financial year it is assessed whether there are any signs of impairment of an asset. If such signs exist, the recoverable value of the asset is assessed, equalling:

- Fair value less costs to sell or
- Value in use, whichever is higher.

5.2.8. Long-term investments in equity of subsidiaries, associates and joint ventures

An investment in the equity of a subsidiary not included in consolidation is disclosed at cost in the separate financial statements of the parent company.

Subsidiaries are those companies in which SID Bank directly or indirectly holds more than one half of the voting rights or in any other way controls their operations.

Associated companies are companies in which the parent company directly or indirectly holds between 20% and 50% of voting rights.

If there is evidence indicates the need for impairment of an investment in a subsidiary or associated company, the recoverable value is assessed for each individual investment.
Dividends received are disclosed among the income from dividends in the separate income statement.

5.2.9. Financial liabilities measured at amortised cost

The item includes liabilities to banks and clients other than banks.

Items are disclosed at amortised cost consisting of the initial value of the principal reduced by potential repayments and increased by accrued interest for the period and expenses for charged loan approval fees.

Expenses for fess related to the raising of loans are equally distributed over the loan repayment period. The Management Board believes that even distribution of expenses over the loan repayment period is a good approximation for the recognition of expenses using the effective interest rate method.

5.2.10. Provisions

Provisions are formed for potential losses associated with risks resulting from off-balance sheet items (guarantees, approved undrawn credit facilities and credit lines), provisions for loyalty bonuses and retirement benefits.

a) Provisions for guarantees, approved undrawn credit facilities and credit lines

These include impairments for issued guarantees, approved undrawn credit facilities and credit lines calculated according to the procedures stated under Item 5.2.5 hereof.

b) Provisions for loyalty bonuses

These are calculated on the basis of the amounts of bonuses determined by the relevant collective agreement as at 31 December 2007. The calculation takes into account the difference between the period for which the bonus was earned and the period that has yet to pass in order to meet the conditions for receiving the loyalty bonus.

c) Provisions for retirement severance pay

These provisions were calculated on the basis of the provisions of collective agreement, the rates of contributions paid by the employers and the conditions for retirement applicable as at 31 December 2007, assuming that all current employees will meet the conditions for retirement in the companies of SID Bank and that they will meet and exercise the age-related retirement condition.

d) SID Bank pays the social security and pension insurance contributions for its employees, which are charged on the gross salary and recognised in the cost for the period.

Compensations for short-term absences (paid annual leave) are included in the costs of the period.

5.2.11. Equity

Equity includes share capital, capital reserves, profit reserves, revaluation surplus from financial assets, capital revaluation – treasury shares and undistributed profit for the year.

Share capital is disclosed in nominal value and has been paid up by the shareholders.

Capital reserves can be used in accordance with the law for covering the losses and for increasing the capital. Profit reserves are recognised when determined by the body preparing the annual report and/or by a resolution adopted by the competent body and used in accordance with the Articles of Association and applicable law. SID Bank may use its statutory reserves for covering net losses for the financial year, for covering the losses brought forward from previous years, for increasing the share capital from SID Bank's assets, for establishing reserves for own interests and for the rehabilitation of major losses arising from the operations or extraordinary business events. Other profit reserves are intended for strengthening SID Bank's capital adequacy.

Acquired treasury shares are disclosed in the amount of the paid purchase price debited against share capital.

Revaluation surplus includes the revaluation of available-for-sale financial assets

5.2.12. Off-balance-sheet assets

Off-balance sheet records discloses issued guarantees, undrawn approved loans and credit lines, undrawn raised loans and derivative financial instruments.

Assumed financial liabilities for issued guarantees, both financial and service, represent SID Bank's irrevocable payment liability, if a client fails to meet its liabilities to a third person.

The principal aim of assumed and irrevocable liabilities arising from approved undrawn credit facilities and credit lines is to provide assets for SID Bank's client in accordance with the concluded contract.

Risks related to contingent liabilities and assumed financial liabilities are estimated on the basis of applicable provisions (IFRS and taking into account the guidelines issued by the Bank of Slovenia) and are described in detail in Chapter 5.2.5.

5.2.13. Interest income and expense

Interest income and expenses comprise interest income and expenses arising from granted or received loans, interest from available-for-sale financial assets and other interest.

In the separate income statement, income and expenses arising from granted and received loans and other interest are recognised in the relevant period on the basis of applicable interest method.

In available-for-sale financial assets, interest income is evenly distributed over the period for which the security is held, on the basis of the calculation of amortised cost according to the effective interest rate method .

5.2.14. Fees and commissions received and paid

Revenues from fees and commissions comprise commissions from granted loans and guarantees. As stated in the item 5.2.4, revenues from loan approval fees are evenly distributed over the entire period of loan repayment.

Expenses for fees and commissions comprise commissions for loans raised abroad. Expenses for fees and commissions are also evenly distributed over the loan repayment period.

5.2.15. Impairment of loans measured at amortised cost

Losses arising from impairment of loans are recognised if there is objective evidence that the client will not be able to repay the total amount of an approved loan and accrued interest. The amount of loss is the difference between the carrying amount of the loan and its recoverable value which consists of expected future payments, including the amounts of payments from guarantees and collateral, discounted by the interest rate applicable upon the raising of the loan.

The basis for the impairment of loans is the borrower's creditworthiness and performance, taking into account the value of received collateral and third-party guarantees.

5.2.16. Taxation

Corporate income tax is calculated based on the revenues and expenses reported in the separate income statement in accordance with all relevant legislation. The applicable tax rate is 23% of the taxable base.

Deferred corporate income taxes are fully disclosed using the method of a liability on the balance sheet for the temporary differences arising between the tax values of assets and liabilities and their book values in the financial statements. Deferred corporate income taxes are determined based on the tax rates that are applicable as at the balance sheet date and that are expected to be in use when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred corporate income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

SID Bank has receivables from deferred taxes, arising from long-term provisions for loyalty bonuses and severance pay upon retirement and those arising from negative revaluation adjustment of capital for available-for-sale financial assets. Liabilities from deferred taxes arise from positive revaluation adjustment of capital for available-for-sale financial assets.

5.2.17. Effect of changes in foreign exchange rates

The functional currency used in presenting these separate financial statements is the euro (EUR).

All foreign currency assets and liabilities are recorded, on initial recognition in the functional currency, by applying to the foreign currency amount at spot exchange rate between the functional currency and the foreign currency on the date of the transaction (the mean exchange rate of the European Central Bank.

At each balance sheet date:

- Foreign currency cash items are translated using the closing rate;
- Non-cash items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- Non-cash items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising from the settlement of cash items or when translating cash items at rates different from those at which they were translated on initial recognition or in the previous financial statements are recognised in the income statement for the period in which they arise. They are disclosed under the item gains and losses from exchange rate differences.

5.2.18. Significant amounts

Significant items in the separate balance sheet are those which exceed 1% of total assets on the balance sheet date, i.e. EUR 12,487 thousand as at 31 December 2007. Significant items in the separate income statement are those which exceed 0.5% of total assets on the balancing date, i.e. EUR 6,244 thousand in the separate income statement for 2007.

5.2.19. Separate cash flow statement

The separate cash flow statement was compiled on the basis of the indirect method or Version II. Pursuant to this method, cash flows from operations are first calculated on the basis of broken down data from the separate balance sheet and separate income statement. All effects related to investing and financing, i.e. property, plant and equipment, investment property, intangible assets, investments in the capital of associates, joint ventures and subsidiaries, non-current assets or liabilities held for sale, financial assets held to maturity, subordinated liabilities, issued capital instruments and treasury shares are deducted from the net profit for the financial year. All unrealised exchange rate differences and unrealised effects from the change in the fair value, which are transferred to cash equivalents are also deducted, while the effects of the change in the fair value of financial instruments from the revaluation surplus before tax, related to the operating items, i.e. available-for-sale financial assets and derivates held for hedging cash flows are added. The resulting amount of the effects of the separate income statement and the revaluation surplus needs to be further adjusted for net increase or decrease in operating assets and liabilities and paid or refunded corporate income tax. The result is net cash flows from operating activities. In the section relating to cash flows from investing activity and cash flows from financing, the direct method is used, based on inflows and outflows. Cash assets are taken into account in line with the definition stated in Item 5.2.1.

5.2.20. Separate statement of changes in equity

Separate statement of changes in equity discloses the changes in individual equity components during the accounting period. The form is based on the requirements of IAS 1.96. The change in each equity item, as disclosed in the balance sheet, is presented in the form.

The separate statement of changes in equity is compiled by entering in the relevant items the balances of individual equity components from the previous financial year, the amounts of changes in individual equity components during the accounting period, including the utilisation of net profit and the coverage of loss during the accounting period, and the balances of individual equity components at the end of the accounting period. In a separate row, amounts are disclosed by equity components which comprise net distributable profit or balance sheet loss for the accounting period, for which a separate change in equity statement is compiled.

5.2.21. Adjustments to new or amended standards applicable as of 1 January 2007 and impact of un-enforced and un-applied standards and notes

IFRS 7 Financial instruments: disclosures; entered into force in 2007 and applies to annual reporting periods starting on 1 January 2007 and the resulting revised IAS 1 Presentation of Financial Statements. Both were taken into account by SID Bank when preparing the statements for 2007.

The adoption of IFRS 7 and revised IAS 1 mean that SID Bank has to disclose more details, as stipulated by these accounting standards in relation to financial instruments of SID Bank.

Four interpretations issued by the International Financial Reporting Interpretations Committee apply to the current period, namely:

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies,
- IFRIC 8 Scope of IFRS 2,

- IFRIC 9 Reassessment of Embedded Derivatives, and
- IFRIC 10 Interim Financial Reporting and Impairments.

The adoption of these interpretations did not result in a change of accounting policies applied by SID Bank.
On the date these separate financial statements were approved, the following interpretations were being prepared for issue but not yet in force:

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective from 1 March 2007)
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008), and
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2008).

The Management Board believes that the interpretations regarding the above standards will have no material impact on the future separate financial statements of SID Bank.

5.3. Fiduciary accounts

5.3.1. Insurance against non-marketable risks

As stated in Item 5.1, SID Bank has been authorised by the Republic of Slovenia to perform the activities of an export-credit agency specialised in insurance of short-term export credits against non-commercial and other non-marketable risks, insurance of investments against non-commercial risks and insurance of medium-term export credits against commercial and/or non-commercial risks.

The Republic of Slovenia provides the funds for insurance carried out by SID Bank on behalf of the state in the form of cash used for the formation of contingency reserves intended for covering liabilities to the insured which arise from insurance against medium-term commercial risks, non-commercial risks and non-marketable short-term commercial risks.

Article 4 of the ZZFMGP regulates the operations in contingency reserves and stipulates that contingency reserves are formed from paid premiums, fees, recoveries and other revenues generated by the authorised institution as the representative of the state with insurance, reinsurance, retrocession and other operations and services by which it provides coverage against non-marketable risks for the participants in international trade. Contingency reserves are also formed from the assets obtained by the authorised institution from asset management and assumed risks, from the budget of the Republic of Slovenia and from other sources and assets. Contingency reserves are used for settling liabilities to the insured, payment of costs incurred in the scope of prevention and reduction of future and existing losses, for covering losses arising from these operations and the management of these assets and risks and for the payment of costs related to the provision of the services of the authorised institution on the basis of the above-mentioned Act.

On the basis of the ZZFMGP, SID Bank signed a contract on the regulation of mutual relationships associated with the implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions with the Ministry of Finance on 1 December 2004.

In line with the above-mentioned legal provisions and the contract with the Ministry of Finance, SID Bank discloses its operations performed on behalf of the state in the books of account separately from other operations of SID Bank. SID Bank compiles separate income statements for operations performed on behalf of and for the account of the state, which include all revenues and expenses related to these operations. A separate balance sheet is compiled for these operations. The separate balance sheet of SID Bank does not include the contingency reserves and the investments from these reserves (Notes to individual Items 5.5.10. and 5.5.23.).

The contract on the regulation of mutual relationships associated with the implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions signed with the Ministry of Finance on 1 December 2004 also stipulates the fee for the provision of services under the ZZFMGP and in the contract, which is charged as of 1 January 2005. The contract is concluded for an indefinite period of time, but cannot exceed the day the authorisations are granted to the authorised institution, selected on the basis of Article 11 of the ZZFMGP.

5.3.2. Interest rate equalisation programme

On the basis of the contract of the interest rate equalisation programme (IREP) and management of IREP reserve funds, concluded with the Ministry of Finance on 24 November 2006, the IREP reserves were formed on 29 December 2006.

In line with the legal provisions and the contract with the Ministry of Finance, SID Bank discloses its operations performed on behalf of the state - interest rate equalisation programme (IREP) in the books of account separately

from other operations of SID Bank. SID Bank compiles separate income statements for operations performed on behalf of and for the account of the state, which include all revenues and expenses related to these operations. A separate balance sheet is compiled for these operations. The management of IREP reserve funds and investments from the interest rate equalisation programme are not included in the separate balance sheet of SID Bank (Notes to individual Items 5.5.11. and 5.5.24.).
The programme is presented in Item 6.6. of the business report.

5.4. Companies in the Group

5.4.1. Basic information on the Group

The SID Bank Group consists of the following:

- SID - Prva kreditna zavarovalnica d.d., Ljubljana with registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (hereinafter: PKZ Ljubljana),
- PRO KOLEKT, družba za izterjavo, d.o.o. Ljubljana with registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (hereinafter: PRO KOLEKT Ljubljana), as the founder of:
    - PRO KOLEKT d.o.o. Zagreb with registered office at Savska cesta 41, 10144 Zagreb, Croatia (registered on 1 February 2006),
    - PRO KOLEKT d.o.o. Skopje with registered office at Bulevar Goce Delčev 11, 91000 Skopje, Macedonia (registered on 20 June 2006),
    - PRO KOLEKT, društvo za izterjavo duga, d.o.o. Belgrade with registered office at Bulevar Mihajla Pupina 10ž, 11070 Belgrade, Republic of Serbia (registered on 18 December 2006),
    - S.C. PRO KOLEKT Credit Management Services Bucuresti s.r.l., Bucharest with registered office at Prof. George Murgoci Str.2, District 4, 040526 Bucharest, Romania (registered on 6 April 2007),
    - PRO KOLEKT SOFIA EOOD, Sofia with registered office at 65, Shipchenski prohod Blvd.,1574 Sofia, Bulgaria (registered on 9 May 2007),
    - PRO KOLEKT d.o.o. Sarajevo with registered office at Ulica Hamdije Čermelića 2, 71000 Sarajevo, Bosnia and Herzegovina (registered on 13 July 2007),

- Prvi faktor, faktoring družba, d.o.o., Ljubljana with registered office at Slovenska cesta 17, 1000 Ljubljana, Slovenia (hereinafter: PRVI FAKTOR Ljubljana), in which SID Bank holds a 50% stake and which has four subsidiaries:
    - Prvi faktor, faktoring družba, d.o.o., Ljubljana with registered office at Slovenska cesta 17, 1000 Ljubljana, Slovenia (hereinafter: PRVI FAKTOR Ljubljana), in which SID Bank holds a 50% stake and which has four daughter companies:
    - PRVI FAKTOR - faktoring, d.o.o. Belgrade with registered office at Bulevar Mihajla Pupina 165/v, 11070 New Belgrade, Republic of Serbia (PRVI FAKTOR Belgrade),
    - PRVI FAKTOR d.o.o., finansijski inžinjering, d.o.o., Sarajevo with registered office at Džemala Bijedića bb, 71000 Sarajevo, Bosnia and Herzegovina (registered on 27 February 2006),
    - PRVI FAKTOR d.o.o. Skopje with registered office at Mito Hasivasilev-Jasmin 20, 91000 Skopje, Macedonia.

In December 2004, SID Bank founded SID – Prva kreditna zavarovalnica d.d., Ljubljana, Ulica Josipine Turnograjske 6, Slovenia (PKZ) and transferred to it the portfolio of marketable insurance which it performed for its own account until the end of 2005; as of 1 January 2005, these services are only provided by PKZ.

In June 2004, SID Bank founded the collection company PRO KOLEKT d.o.o., in which it holds a 100% capital stake.

With the aim of supplementing the range of insurance and financing services and factoring development, SID Bank obtained a 50% capital stake in the company LB Factors d.o.o. (now PRVI FAKTOR d.o.o.) in 2002 on the basis of the agreement concluded with Nova Ljubljanska banka d.d., Ljubljana and LB Interfinanz AG Zurich. On 15 October 2002, SID Bank entered the company by increasing its capital in the amount of SIT 500,220 thousand.

In December 2006, SID Bank took over the founding stake in CMSR (Center za mednarodno sodelovanje in razvoj/Centre for International Cooperation and Development) from the NLB and the CCIS. CMSR is defined as a public institute in the Articles of Association.

Basic data on the companies in the SID Bank Group as at 31 December 2007:

In EUR thousand	SID Bank's interest	Voting rights	Nominal value of investment	Capital	Assets	Liabilities	net sales revenues	Net profit (loss)	Number of employees
SID Bank				107,550	1,248,713	1,141,163	*48,113	3,612	69
PKZ	100%	100%	4,206	18,685	46,706	28,021	9,112	1,803	40
PK Ljubljana	100%	100%	419	258	370	112	346	(144)	7
PK Zagreb	100%	100%	14	(23)	3,598	3,621	121	(19)	3
PK Skopje	80%	80%	8	2	2	0	5	(6)	1
PK Belgrade	100%	100%	25	(21)	22	43	28	(46)	1
PK Bucharest	80%	80%	20	1	7	6	6	(23)	1
PK Sofia	100%	100%	26	15	26	11	5	(11)	1
PK Sarajevo	100%	100%	26	6	21	15	0	(19)	1
PF Ljubljana	50%	50%	3,087	6,806	123,811	117,005	2,031	1,661	35
PF Zagreb	50%	50%	2,651	4,507	158,980	154,473	1,573	1,161	39
PF Belgrade	50%	50%	1,250	6,201	75,570	69,369	2,155	4,294	25
PF Sarajevo	50%	50%	451	570	13,189	12,619	360	131	9
PF Skopje	50%	50%	5	5	5	0	0	0	
CMSR Ljubljana	0	50%	0	97	1,727	1,630	343	35	9

* Net revenues of SID Bank include interest and commissions as its principal activity.

Basic data on the companies in the SID Bank Group as at 31 December 2006:

In EUR thousand	SID Bank's interest	Voting rights	Nominal value of investment	capital	Assets	Liabilities	net sales revenues	Net profit (loss)	Number of employees
SID Bank				102,704	806,477	702,079	*34,832	2,557	68
PKZ	100%	100%	4,206	18,420	40,150	21,731	7,313	968	38
PK Ljubljana	100%	100%	29	13	121	108	355	(17)	3
PK Zagreb	100%	100%	14	(4)	3,672	3,676	22	(17)	2
PK Skopje	80%	80%	8	8	7	1	3	(3)	1
PK Belgrade	100%	100%	25	25	25	0	0	0	0
PF Ljubljana	50%	50%	2,087	3,330	70,300	66,970	1,430	185	30
PF Zagreb	50%	50%	1,851	2,890	95,317	92,427	1,083	877	30
PF Belgrade	50%	50%	550	2,088	52,134	50,046	1,368	1,261	12
PF Sarajevo	50%	50%	51	65	2,754	2,689	62	14	4
PF Skopje	50%	50%	5	5	5	0	0	0	0
CMSR Ljubljana	0	50%	0	97	101	4	245	(13)	7

The relationships between the companies in the Group are comparable with the relationships of the companies with third persons.

5.4.2. Consolidated financial statements of the SID Bank Group

SID Bank is the controlling company in the SID Bank Group. The consolidated financial statements as at 31 December 2007, which, similar to the separate financial statements were compiled in accordance with the International of Financial Reporting Standards as adopted by the EU, are compiled and disclosed separately.

5.5. Notes to the separate balance sheet

(In EUR thousand)

5.5.1. Cash and balances with the central bank

	31.12.2007	31.12.2006
Minimum reserves	298	0
Total	298	0

SID Bank formed the statutory reserve on 14 March 2007 in the amount of EUR 140 thousand and increased it to EUR 298 thousand by the end of the year through the increase in the liabilities to clients other than banks.

5.5.2. Financial assets held for trading

	31.12.2007	31.12.2006
Derivative financial instruments held for trading under forward contracts	56	32
Derivative financial instruments held for trading under swap contracts	73	125
Total	129	157

The item includes the valuation of derivative financial instruments: interest swap in the amount of EUR 5,000 thousand and two currency forwards in the amount of USD 2,000 thousand.

5.5.3. Available-for-sale financial assets

	31.12.2007	31.12.2006
Short-term debt securities	0	6,168
Long-term debt securities	40,728	29,243
Total	40,728	35,411

a) Debt securities by type of issuer

	31.12.2007	31.12.2006
Government securities	12,187	18,865
- *Republic of Slovenia bonds*	12,187	12,697
- *Republic of Slovenia treasury bills*	0	6,168
Bonds of foreign countries	401	440
- *Central government bonds*	353	385
- *Local government bonds*	48	55
Bank bonds	10,279	12,425
- *Domestic banks*	2,576	2,573
- *Domestic banks- subordinate bonds*	2,358	2,451
- *Foreign banks*	5,345	7,401
Bonds of other foreign financial organisations	1,891	1,467
Bonds of non-financial companies	15,704	1,952
- *Domestic non-financial companies*	10,271	246
- *Foreign non-financial companies*	5,433	1,706
Capital investment	266	262
Total	40,728	35,411

The disclosed balance of long-term securities includes accrued interest calculated at the effective interest rate in the amount of EUR 534 thousand.

b) Debt securities by interest accrual method

	31.12.2007	31.12.2006
At fixed interest rate	31,463	27,040
At variable interest rate	8,999	8,109
Non-interest	266	262
Total	40,728	35,411

c) Breakdown of debt securities by issuer credit rating

Credit rating	Fair value as at 31 December 2007	Structure in %
Credit rating according to S&P		
AAA	500	1.23
AA+	2,395	5.88
AA	13,159	32.31
AA-	201	0.49
A+	500	1.23
A	2,656	6.52
A -	3,199	7.85
BBB	3,941	9.68
BBB	1,279	3.14
no rating	12,898	31.67
Total	40,728	100.0

d) Changes in debt securities

	2007	2006
Balance as at 1 January	35,411	26,844
Additions	26,122	42,364
Sale, realisation	(20,805)	(33,797)
Balance as at 31 December	40,728	35,411

Debt securities include EUR 2,039 thousand in subordinated securities, namely BDM11, NKBMFL09, NKBMFL49 and NLB13 bonds. Exposure to interest rate risk is presented in items 5.6.1. and 5.8.3.

Of the total portfolio as at 31 December 2007 DRK1, BDM11 and TALLIN bonds in the amount of EUR 10,796 thousand and the mutual fund MP Plus in the amount of EUR 266 thousand were not listed on the stock exchange.

5.5.4. Credit

	31.12.2007	31.12.2006
Loans to banks	915,674	594,174
Loans to clients other than banks	276,822	164,343
Total	1,192,496	758,517

a) Loans to banks

	31.12.2007	31.12.2006
Short-term loans	70,196	42,967
Long-term loans	817,043	502,067
Special purpose deposits	28,372	49,084
Sight deposits	63	56
Total	915,674	594,174

Foreign-currency loans to banks amounted to USD 30,462 thousand. Foreign-currency special-purpose deposits amounted to USD 952 thousand.

Loans and special-purpose deposits were granted to Slovenian banks for financing and refinancing of exports and other international commercial operations in line with the business policy of SID Bank for a specific financial year. The rate of refinancing of export bank loans in domestic and foreign currencies was typically between 50% and 100% of the value of the export credit.

SID Bank directly finances international commercial operations, usually by providing funds equalling up to 100% of the operation value or, according to OECD rules, up to 85% of the export operation.

a1) Short-term loans to banks

	31.12.2007	31.12.2006
Loans in EUR	70,239	42,967
Value adjustments of loans	(43)	0
Total	70,196	42,967

a2) Long-term loans to banks

	31.12.2007	31.12.2006
Loans in EUR	797,588	485,375
Credits in foreign currency	20,733	16,751
Value adjustments of loans	(1,278)	(59)
Total	817,043	502,067

Long-term foreign-currency loans amounted to USD 30,462 thousand.

a3) Special-purpose deposits to banks

	31.12.2007	31.12.2006
Short-term in EUR	24,479	46,000
Short-term in foreign currency	648	0
Long-term in EUR	3,245	3,084
Total	28,372	49,084

Short-term foreign-currency deposits amounted to USD 952 thousand.

a4) Changes in loans to banks – gross exposure

	2007	2006
Balance as at 1 January	594,233	450,062
New loans and deposits	1,794,572	1,326,080
Repayments	(1,471,810)	(1,181,909)
Balance as at 31 December	916,995	594,233

a5) Changes in adjustments (impairment)

	2007	2006
Balance as at 1 January	59	334
Value adjustments of loans	1,934	495
Elimination of value adjustments of loans	(672)	(771)
Balance as at 31 December	1,321	59

a6) Interest rates on refinanced bank loans

SID Bank's interest rates on refinanced loans in domestic and foreign currencies were treated on a case-by-case basis, depending on the loan maturity. The interest rates consisted of 3 or 6-month EURIBOR/LIBOR or the swap interest rate for adequate maturity a the margin of between 0.18% p.a. and 1.65% p.a. Exposure to interest rate risk is presented in items 5.6.1. and 5.8.3, whereas exposure to currency risks is detailed in item 5.8.2.

b) Loans to clients other than banks

	31.12.2007	31.12.2006
Short-term loans	54,070	44,965
Long-term loans	222,434	117,927
Claims arising from guarantees	318	1,451
Total	276,822	164,343

Foreign-currency loans to clients other than banks amounted to USD 3,112 thousand.

b1) Short-term loans to clients other than banks

	31.12.2007	31.12.2006
Loans to non-financial companies in foreign currency	699	782
Domestic-currency loans to non-financial companies	18,917	16,945
Foreign-currency loans to financial companies	0	328
Domestic-currency loans to financial organisations	5,307	9,416
Loans to foreign entities in domestic currency	30,775	19,694
Value adjustments of short-term loans	(1,628)	(2,200)
Total	54,070	44,965

Short-term foreign-currency loans amounted to USD 1,027 thousand.

b2) Long-term loans to clients other than banks

	31.12.2007	31.12.2006
Loans to non-financial organisations in foreign currency	1,100	1,227
Loans to non-financial organisations in domestic currency	152,076	92,129
Domestic-currency loans to financial organisations	35,850	12,109
Loans to foreign entities in foreign currency	319	712
Loans to foreign entities in domestic currency	43,770	19,530
Value adjustments of long-term loans	(10,681)	(7,780)
Total	222,434	117,927

Long-term foreign-currency loans amounted to USD 2,085 thousand.

b3) Claims arising from guarantees
The item includes receivables from realised guarantees in the total amount of EUR 2,335 thousand for which value adjustments were formed accounting for 86%.

b4) Changes in loans to clients other than banks – gross exposure

	2007	2006
Balance as at 1 January	176,694	142,207
New loans and deposits	241,622	126,031
Repayments	(127,167)	(91,544)
Balance as at 31 December	291,149	176,694

b5) Changes in adjustments (impairment)

	2007	2006
Balance as at 1 January	12,351	9,643
Value adjustments of loans (impairments)	14,883	9,208
Elimination of value adjustments of loans (elimination of impairments)	(12,907)	(6,500)
Balance as at 31 December	14,327	12,351

b6) Interest rates for clients other than banks
Interest rates on foreign-currency loans to clients other than banks in the direct financing of corporates range from 3 or 6-month LIBOR + 0.70% p.a. to 6-month LIBOR + 1.2% p.a.

Interest rates on domestic-currency loans to clients other than banks in the direct financing of corporates range from 1 or 6-month EURIBOR + 0.48% p.a. to 3 to 6-month EURIBOR + 2.00% p.a.

Exposure to interest rate risk is presented in items 5.6.1. and 5.8.3, whereas exposure to currency risks is detailed in item 5.8.2.

5.5.5. Property, plant and equipment

	Real estate	Other equipment	Total
Purchase value			
Balance at 1 January 2007	6,404	1,318	7,722
Increase	184	179	363
Decrease	0	(93)	(93)
balance as at 31 December 2007	6,588	1,404	7,992
Value adjustments			
Balance at 1 January 2007	(1,545)	(1,025)	(2,570)
Amortisation/depreciation	(307)	(117)	(424)
Decrease	0	93	93
balance as at 31 December 2007	(1,852)	(1,049)	(2,901)
Net book value as at 1 January 2007	4,859	293	5,152
Net book value as at 31 December 2007	4,736	355	5,091

The increase in property, plant and equipment is for the most part accounted for by the renovation of the 4th and 5th floors of the office building and the purchase of equipment for these premises. SID Bank purchased these premises in 2006.

As at 31 December 2007, SID Bank has no outstanding liabilities to suppliers for fixed assets.

5.5.6. Intangible assets

	Under construction	In use	Total
Purchase value			
Balance at 1 January 2007	62	761	823
Transfer	(258)	258	0
Increase	232	(4)	228
Decrease		(181)	(181)
Balance as at 31 December 2007	36	834	870
Value adjustments			
Balance at 1 January 2007	0	(214)	(214)
Amortisation/Depreciation	0	(136)	(136)
Decrease	0	80	80
Balance as at 31 December 2007	0	(270)	(270)
Net book value as at 1 January 2007	62	547	609
Net book value as at 31 December 2007	36	564	600

In 2007, SID Bank purchased an analytical programme for managing securities and a programme for implementing payment transactions through the SWIFT system. Other increases represent functional upgrades to the existing programmes.

5.5.7. Long-term investments in the equity of subsidiaries, associates and joint ventures

	31.12.2007	31.12.2006
Investment in PZK Ljubljana	4,206	4,206
Investment in PRO KOLEKT Ljubljana	419	29
Investment in PRVI FAKTOR Ljubljana	3,087	2,087
Total	7,712	6,322

Changes in long-term investments

	2007	2006
Balance as at 1 January	6,322	5,165
Increase	1,390	1,157
Balance as at 31 December	7,712	6,322

On 21 February 2007, SID Bank increased the capital of PRVI FAKTOR Ljubljana in the amount of EUR 1 million and on 12 February 2007, it increased the capital of the subsidiary PRO KOLEKT Ljubljana in the amount of EUR 390 thousand.

5.5.8. Corporate income tax assets

	31.12.2007	31.12.2006
Receivables for prepaid corporate income tax	1,229	0
Deferred tax assets	144	55
Total	1,373	55

As at 31 December 2007, SID Bank had long-term deferred receivables for taxes arising from the provisions for loyalty bonuses and severance pay upon retirement of bank employees, arising from the impairment of intangible long-term asset (collection programme) and from the capital revaluation adjustment of available-for-sale financial assets.

5.5.9. Other assets

	31.12.2007	31.12.2006
Fees and commissions receivables	24	21
Advances to suppliers for operating assets	7	3
Trade receivables	17	27
Other receivables	121	76
Deferred expenses and accrued income, excluding interest	121	127
Total	290	254

5.5.10. Investments from contingency reserves

	31.12.2007	31.12.2006
Loans to banks	62,803	68,425
Loans to clients other than banks	2,520	2,686
Debt securities	38,278	27,891
Other assets	3,677	3,702
Total	107,278	102,704

Other assets include a receivable due from PRO KOLEKT Zagreb in the amount of EUR 3,555 thousand.

5.5.11. Investments from the interest rate equalisation programme

	31.12.2007	31.12.2006
Credit	1,476	1,461
Debt securities	3,919	0
Total	5,395	1,461

5.5.12. Financial liabilities held for trading

	31.12.2007	31.12.2006
Derivative financial instruments held for trading, forward contract valuation	24	0
Derivative financial instruments held for trading, swap contract valuation	163	163
Total	186	163

5.5.13. Financial liabilities measured at amortised cost

	31.12.2007	31.12.2006
Deposits of banks	26,205	0
Deposits of clients other than banks	32,880	43
Long-term Loans of banks	1,069,125	694,352
Debt securities	8,859	0
Total	1,137,069	694,395

Foreign-currency liabilities to banks amounted to USD 16,132 thousand.

a) Changes in financial liabilities measured at amortised cost

	2007	2006
Balance as at 1 January	694,395	509,935
New loans and deposits	730,800	346,578
Repayments	(288,126)	(162,118)
Balance as at 31 December	1,137,069	694,395

Long-term liabilities to foreign banks relater to liabilities from loans raised in the international syndicated loans market of between 2000 and 2005, and bilateral credit lines in co-operation with KfW- Kredit fuer Wiederaufbau and the Council of Europe Development Bank, secured by the guarantee of the Republic of Slovenia. Long-term foreign-currency liabilities amounted to USD 16,132 thousand.

b) Interest rates on raised loans
Interest rates on long-term loans from foreign banks range between 3 or 6-month EURIBOR/LIBOR + 0.0225% p.a. to 3 or 6-month EURIBOR/LIBOR + 0.38% p.a.

5.5.14. Provisions

	31.12.2007	31.12.2006
Provisions for pensions and similar liabilities to employees	105	119
Provisions for off-balance-sheet liabilities	778	1,623
Total	883	1,742

a) Provisions for pensions and similar liabilities to employees

	31.12.2007	31.12.2006
Balance as at 1 January	119	125
Provisions formed	2	0
Provisions cancelled and used	(16)	(6)
Balance as at 31 December	105	119

The calculation for loyalty bonuses was based on the assumption that all beneficiaries are still the employees of SID Bank when the conditions are established for the payment of this bonus. The amounts of awards were discounted to the present value, taking into account the time schedule of the payment of loyalty bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. The full interest rate calculated in such way was taken into account (3.6%). The following input parameters were used: loyalty bonuses for 10 years of EUR 354.46, EUR 531.69 for 20 years and EUR 708.92 for 30 years.

The calculation of severance pay takes into account the difference between the period for which the severance pay was earned and the period that has yet to pass in order to meet the conditions for retirement. The amounts of severance pay were discounted to the present value, taking into account the time schedule of the payment of bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. The full interest rate calculated in such way was taken into account (3.6%). The following input parameters were used: amount based on the Employment Relationship Act (two average monthly salaries of the employee for the past three months), increased by the achieved growth in salaries in the banking sector in the last five years, a length of service upon retirement for men 40 years and for women 38 years.

b) Provisions for off-balance-sheet liabilities

The item includes special provisions for covering contingent losses arising from issued guarantees and undrawn credit facilities

	31.12.2007	31.12.2006
Provisions for guarantees	718	932
Provisions for undrawn credit facilities	60	691
Total	778	1,623

Changes

	31.12.2007	31.12.2006
Balance as at 1 January	1,623	2,857
Provisions formed	3,769	4,030
Foreign exchange differences	(9)	(24)
Provisions released	(4,605)	(5,240)
Balance as at 31 December	778	1,623

5.5.15. Corporate income tax liabilities

	31.12.2007	31.12.2006
Liabilities for tax on profit	2,163	2,521
Deferred tax liabilities	27	37
Total	2,190	2,558

Tax liability in the amount of EUR 2,163 thousand arose from the transition to the IFRS in 2006. SID Bank will include the liability in the tax account for 2008. The deferred liability for tax represents a liability arising from the revaluation adjustment of available-for-sale financial assets.

5.5.16. Other liabilities

	31.12.2007	31.12.2006
Net salaries and net wage compensation to employees	100	93
Meal and transportation allowances	10	8
Contributions and taxes from and on salaries	156	163
Suppliers	137	2,846
Other liabilities	18	33
Accrued costs and deferred income:	414	78
- Accrued costs	*366*	*56*
- Short-term deferred revenues	*48*	*22*
Total	835	3,221

5.5.17. Share capital

Subscribed capital in the amount of EUR 89,600 thousand is divided into 932,354 ordinary registered no-par value shares and has been paid up in full. The number of shares in 2007 remained the same.
Based on the resolution of the General Meeting, SID Bank increased its share capital in 2007 from existing components of equity. The increase was entered in the Companies Register on 30 August 2007.

Taking into account net profit of EUR 3,616 thousand and the number of shares, i.e. 913,909; earnings per share as at 31 December 2007 stood at EUR 3.95. Taking into account net profit of EUR 2,557 thousand and the number of shares, i.e. 913,909; earnings per share as at 31 December 2006 stood at EUR 2.80.

5.5.18. Capital surplus

	31.12.2007	31.12.2006
Payments exceeding nominal amounts of paid-up shares	1,139	5,581
Capital reserves arising from capital revaluation adjustment	0	22,050
Total	1,139	27,631

5.5.19. Revaluation surplus

	31.12.2007	31.12.2006
Revaluation surplus from available-for-sale financial assets	(331)	130
Total	(331)	130

5.5.20. Reserves from profit (including profit retained)

	31.12.2007	31.12.2006
Legal reserves	7,894	7,894
Reserves for treasury shares	1,325	1,325
Statutory reserves	7,135	5,327
Other profit reserves	1,212	6,893
Total revenue reserves	17,566	21,439
Retained profit from transition to IFRS	0	17,308
Total	17,566	38,747

5.5.21. Treasury shares

	31.12.2007	31.12.2006
Repurchased treasury shares	(1,324)	(1,324)
Total	(1,324)	(1,324)

5.5.22. Capital adjustment

Capital components		Revaluation according to CPI growth (5.6%)
Subscribed capital	89,600	5,018
Capital reserves	1,139	64
Revenue reserves	17,566	984
Revaluation surplus	(331)	(19)
Treasury shares	(1,324)	(74)
	106,650	5,973

In the event of capital revaluation according to the growth in the consumer price index, the profit/loss before tax would be EUR 5,973 thousand lower.

5.5.23. Liabilities for contingency reserves

	31.12.2007	31.12.2006
Safety margin	102,965	97,848
Revaluation surplus from available-for-sale financial assets	(330)	(124)
Accrued expenses and deferred revenues	4,643	4,980
Total liabilities for contingency reserves	107,278	102,704

Changes in contingency reserves

	2007	2006
Balance as at 1 January	97,848	92,455
Surplus of income over expenses	5,117	5,393
Balance as at 31 December	102,965	97,848

Contingency reserves in 2007 rose by EUR 5,117 thousand which equalled the surplus of income over operating expenses in the name of and on behalf of the state. The income statement and balance sheet for operations on behalf of and for the account of the State are presented in Appendix 3.

5.5.24. Liabilities from the interest rate equalisation programme

	31.12.2007	31.12.2006
Financial liabilities measured at amortised cost	1,461	1,461
Remittances	3,846	0
Surplus of income over expenses	95	0
Revaluation surplus from available-for-sale financial assets	(7)	0
Total liabilities from the interest rate equalisation programme	5,395	1,461

The funds of the interest rate equalisation programme in 2007 rose by EUR 95 thousand, which equalled the surplus of operating income over expenses on behalf of and for the account of the state (interest rate equalisation programme). The income statement and balance sheet for operations on behalf of and for the account of the state (interest rate equalisation programme) are presented in Appendix 4.

5.5.25. Off-balance-sheet items

	31.12.2007	31.12.2006
Debtors under guarantees	52,481	35,998
Financial liabilities assumed	23,564	41,525
Debtors under assumed financial liabilities	92,500	172,000
Debtors under derivatives	7,760	6,551
Other financial liabilities assumed	148	148
Total	176,453	256,222

a) Debtors under guarantees

The item discloses issued guarantees. Breakdown of issued guarantees by maturity

	31.12.2007	31.12.2006
Short-term	15,272	19,925
Long-term	37,209	16,073
Total	52,481	35,998

The breakdown of guarantees by type is as follows:

	31.12.2007	31.12.2006
Payment	4,991	3,742
Service	16,075	16,923
Assumed risk	17,300	0
Customs	2,492	4,419
Waste removal guarantees	11,623	10,914
Total	52,481	35,998

The breakdown of guarantees balance by currency

	31.12.2007	31.12.2006
EUR	49,509	33,176
USD	636	169
HRK	2,314	2,628
EEA	22	25
Total	52,481	35,998

b) Financial liabilities assumed

	31.12.2007	31.12.2006
Approved undrawn loans	23,564	41,525
Total	23,564	41,525

The item comprises undrawn loans granted to domestic banks and a company with a drawing date in 2007.

c) Debtors under assumed financial liabilities

	31.12.2007	31.12.2006
Raised undrawn loans	92,500	172,000
Total	92,500	172,000

This item comprises approved undrawn loans raised abroad, guaranteed by the Republic of Slovenia in the amount of EUR 72,500 thousand and a credit line in the amount of EUR 20,000 thousand.

d) Debtors under derivatives

	31.12.2007	31.12.2006
Forward contracts in foreign currency	2,760	1,551
Interest swap	5,000	5,000
Total	7,760	6,551

As at 31 December 2007, the bank had two forward contracts in total amount of USD 2 million.

The interest swap was concluded in November 2005 with Sumitomo - SMBC to secure the return on the portfolio of Republic of Slovenia bonds with a fixed interest rate. The principal amounts to EUR 5,000 thousand and the transaction matures on 17 April 2008.

5.6. Notes to the Separate Income Statement

(In EUR thousand)

5.6.1. Net interest

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Interest from financial assets held for trading	274	(163)	218	(245)
Interest from available-for-sale financial assets	1,454		1,383	
Interest from granted loans and deposits made	45,816	(38,647)	25,728	(19,588)
Interest from other financial assets	3		4	(1)
Total	47,547	(38,810)	27,333	(19,834)
Net interest	8,737		7,499	

Default interest income totalled EUR 45 thousand and default interest expenses EUR 44.

Interest rate risk - realised interest rates

		in %
	2007	2006
Assets		
Loans and deposits in EUR	4.33	3.51
Foreign-currency denominated loans and deposits	6.34	3.23
Securities	4.78	4.02
Liabilities		
Loans and deposits in EUR	3.81	3.23
Foreign-currency denominated loans and deposits	5.54	2.70

Interest rates are calculated based on interest income and expenses and average balances of individual interest bearing items of assets and liabilities.

5.6.2. Revenues from dividends

	2007	2006
Revenues from dividends	1,031	33
Total	1,031	33

Dividends were paid by the subsidiaries PKZ Ljubljana in the amount of EUR 939 thousand and PRVI FAKTOR Ljubljana in the amount of EUR 92 thousand.

5.6.3. Net fees and commissions

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Fees and commissions for banking services performed	0	(89)	0	(24)
Commissions for payment transactions	0	(1)	0	(4)
Fees and commissions from lending	332	0	141	(51)
Fees and commissions for guarantee transactions	207	0	194	0
Fees and commissions for credit rating information	0	0	0	0
Fees and commissions for securities	0	(9)	0	(4)
Other fees and commissions	27	(2)	0	0
Total	566	(101)	335	(83)
Net fees and commissions	465		252	

5.6.4. Profits/losses from financial assets and liabilities not measured at fair value through profit or loss

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Available-for-sale financial assets	7	(24)	0	(33)
Total	7	(24)	0	(33)
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss		(17)		(33)

5.6.5. Net profitss/losses from financial assets and liabilities held for trading

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Derivative financial instruments under forward transactions	128	(55)	52	0
Derivative financial instruments under swap transactions	0	(53)	79	0
Total	128	(108)	130	0
Net profits/losses from financial assets and liabilities held for trading	20		130	

5.6.6. Net foreign exchange gains/losses

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Foreign exchange differences	4,131	(4,389)	4,637	(5,119)
Total	4,131	(4,389)	4,637	(5,119)
Net foreign exchange gains/losses		(258)		(482)

5.6.7. Other net operating profits/losses

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Income from non-banking services	2,460	0	2,463	0
Other operating income	243	0	244	0
Subscriptions	0	(86)	0	(68)
Other operating expenses	0	(24)	0	(12)
Total	2,703	(110)	2,707	(80)
Other net operating profits/losses	2,593		2,627	

The majority of income from non-banking services is accounted for by the service fee according to the Act Governing Insurance and Financing of International Commercial Transactions under the agreement concluded with the Ministry of Finance regulating mutual relations associated with the implementation of Chapter II of the said Act dated 1 December 2004 in the amount of EUR 2,075 thousand (2006: EUR 2,075 thousand).

5.6.8. Administrative costs

	2007	2006
Labour costs	(3,447)	(3,009)
General and administrative costs	(1,793)	(1,759)
Total	(5,240)	(4,768)

a) Labour costs

	2007	2006
Gross salaries	(2,278)	(2,031)
Costs of pension insurance	(206)	(183)
Social security costs	(169)	(150)
Payroll tax	(148)	(177)
Other labour costs	(646)	(468)
Total	(3,447)	(3,009)

The costs of pension insurance (EUR 206 thousand) together with the costs of voluntary supplementary pension insurance (EUR 96 thousand) totalled EUR 302 thousand in 2007.

In 2007, the bank had 67 employees on average; as at 31 December 2007, there were 69 employees, of which 14 had finished secondary school, 6 had finished post-secondary vocational studies (level VI), 42 had finished higher education (level VII), 6 had a master's and 1 a doctor's degree.

The earnings of the members of the Management Board or the managements of companies in 2007 totalled EUR 445 thousand, and the earnings of other employees with service contracts EUR 350 thousand, while the members of the Supervisory Board of SID Bank (Andrej Bajuk, DSc, Gonzalo Caprirolo, MSc, Jožko Čuk, MSc, Helena Kamnar, MSc, Andrej Kitanovski, DSc, Mojmir Mrak, DSc, Stanislav Berlec, Ivan Govše, Stanislava Zadravec-Caprirolo, M.I.A., Robert Kokalj, DSc, Marko Jaklič, DSc) earned EUR 41 thousand,.

According to the balance as at 31 December 2007, SID Bank did not form any provisions arising from the revaluation of salaries.

b) General and administrative costs

	2007	2006
Material costs	(129)	(142)
Costs of services	(1,664)	(1,617)
Total	(1,793)	(1,759)

In 2007, SID Bank recorded the following auditor's costs: auditing of the annual report for 2006 in the amount of EUR 54 thousand and the costs of a preliminary-audit for 2007 totalling EUR 30 thousand.

5.6.9. Amortisation/Depreciation

	2007	2006
Depreciation of tangible fixed assets	(426)	(332)
Amortisation of intangible assets	(136)	(100)
Total	(562)	(432)

5.6.10. Provisions

	2007	2006
Net changes in provisions for guarantees	166	1,441
- Provision expenses	(1,189)	(1,311)
- Revenues from the release of provisions	1,355	2,752
Net change in provisions for undrawn loans	671	(228)
- Provision expenses	(1,920)	(2,452)
- Revenues from the release of provisions	2,591	2,224
Net change in provisions for legal issues	(44)	0
- Provision expenses	(44)	0
Net change in provisions for pensions and similar liabilities	(84)	3
- Provision expenses	(98)	(3)
- Revenues from the release of provisions	14	6
Total	709	1,216

5.6.11. Impairments

	2007	2006
Impairments of loans and liabilities measured at amortised cost	(16,775)	(9,623)
Impairments of other assets	(43)	(15)
Income from the elimination of impairments of loans and liabilities measured at amortised cost	13,430	7,062
Income from the elimination of impairments of other assets	1	1
Total	(3,387)	(2,575)

5.6.12. Corporate income tax related to ordinary activities

	2007	2006
Current tax in the income statement		
- *Operations*	770	905
- *Transition to IFRS*	0	1,229
Total current tax in the income statement	770	2,134
Deferred tax assets	(24)	(21)
Tax expense in the income statement	746	2,113
Profit before taxes (without posted adjustments)	4,091	3,462
Effective tax rate from tax expense *	18.23%	25.53%
Effective tax rate from current tax *	18.81%	26.14%

Current tax represents the tax amount which has to be paid according to the Corporate Income Tax Act at the prescribed tax rate. Tax rate for the prepaid tax was 25%.
Pursuant to the Corporate Income Tax Act, the tax rate for 2007 was reduced by 2 percentage points to 23%.

Corporate income tax liability for 2007 amounted to EUR 750 thousand. The liability was reduced by the decreased corporate income tax liability arising from the transition to the IFRS in the amount of EUR 295 thousand, which increased the net profit for 2007.

Prepaid corporate income tax for 2007 amounted to EUR 2,155 thousand, while the receivable from the excess amount of prepaid tax as at 31 December 2007 totalled EUR 1,409 thousand.

Deferred tax income or expense results from the change of carrying amounts of deferred tax assets and deferred tax liabilities. The company had EUR 24 thousand in net receivables arising from deferred taxes.

SID Bank had no outstanding tax liabilities on 31 December 2007.

5.7. Relations with subsidiaries

(In EUR thousand)

5.7.1. Loans given

	31.12.2007	31.12.2006
PRO KOLEKT Ljubljana		
Short-term loan in EUR thousand	0	49
Value adjustment in EUR thousand	0	(2)
PRVI FAKTOR Ljubljana		
Short-term loan in EUR thousand	5,307	5,356
Value adjustment in EUR thousand	(117)	(166)
Short-term loan in USD thousand	0	433
Value adjustment in USD thousand	0	(16)
PRVI FAKTOR Zagreb		
Short-term loan in EUR thousand	11,021	11,148
Value adjustment in EUR thousand	(583)	(954)
Long-term loan in EUR thousand	11,241	0
Value adjustment in EUR thousand	(595)	0
PRVI FAKTOR Belgrade		
Long-term loan in EUR thousand	5,134	8,284
Value adjustment in EUR thousand	(490)	(969)
Total principal in EUR thousands	32,703	24,818
Total value adjustment in EUR thousand	(1,785)	(2,090)
Total subsidiaries in EUR thousand	30,918	22,775

5.7.2. Borrowing

	31.12.2007	31.12.2006
PRO KOLEKT Ljubljana		
Short-term loan	80	0
PKZ Ljubljana		
Short-term loan	3,569	0
Certificates of deposit	961	0
	4,610	0

5.7.3. Other receivables

	31.12.2007	31.12.2006
PKZ Ljubljana		
Receivables for services	14	11
PRO KOLEKT Zagreb		
Receivables for services	2	0
	16	11

5.7.4. Net interest

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
PKZ Ljubljana	0	(100)	2	0
PRO KOLEKT Ljubljana	0	(6)	0	0
PRVI FAKTOR Ljubljana	222	0	266	0
PRVI FAKTOR Zagreb	861	0	435	0
PRVI FAKTOR Belgrade	563	0	174	0
Total	1,646	(106)	877	0
Net interest	1,540		877	

Interest rate risk - realised interest rates

	%
	2007
Assets	
PKZ Ljubljana	3.57
PRO KOLEKT Ljubljana	3.42
PRVI FAKTOR Ljubljana	4.82
PRVI FAKTOR Zagreb*	5.23
PRVI FAKTOR Belgrade	5.66

*including the syndicated loan (7-58/7) with NLB

5.7.5. Dividend revenues

	2007	2006
PRVI FAKTOR Ljubljana	92	33
PKZ Ljubljana	939	0
Total	1,031	33

5.7.6. Net fees and commissions

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
PRVI FAKTOR Ljubljana	4	0	5	0
PRVI FAKTOR Zagreb	22	0	14	0
PRVI FAKTOR Belgrade	18	0	21	0
Total	44	0	40	0
Net fees and commissions	44		40	

5.7.7. Other net operating profits/losses

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
PKZ Ljubljana	259	0	396	0
PRO KOLEKT Zagreb	10	0	0	0
PRO KOLEKT Ljubljana	25	0	34	0
Total	294	0	430	0
Other net operating profits/losses	294		430	

The majority of revenues from non-banking services relates to rents charged for business premises, services provided for the compilation of credit rating information and information support services.

5.8. Risk management

Risk management at SID Bank is presented in item 6.8. of the business section of the Annual Report 2007.

5.8.1. Balance sheet by maturity as at 31 December 2007

In EUR thousand	Sight	Up to 1 month	1-3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Cash and balances with the central bank	0	0	0	0	0	298	298
Financial assets held for trading	0	28	0	73	28	0	129
Available-for-sale financial assets	0	1,266	0	10,320	19,605	9,537	40,728
Credit	63	9,106	19,504	98,589	378,475	686,759	1,192,496
Property, plant and equipment	0	0	0	0	0	5,091	5,091
Intangible assets	0	0	0	0	0	600	600
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	7,712	7,712
Corporate income tax assets	0	0	0	1,229	0	144	1,373
Other assets	0	129	15	146	0	0	290
TOTAL ASSETS OF SID BANK	**63**	**10,529**	**19,519**	**110,357**	**398,108**	**710,141**	**1,248,717**
INVESTMENTS FROM CONTINGENCY RESERVES	**0**	**2,841**	**400**	**21,597**	**44,409**	**38,031**	**107,278**
INTEREST RATE EQUALISATION PROGRAMME (IREP)	**24**	**0**	**701**	**1,761**	**2,415**	**494**	**5,395**
Financial liabilities held for trading	0	12	0	162	12	0	186
Financial liabilities measured at amortised cost	0	14,338	7,811	40,765	366,398	707,758	1,137,069
Provisions	0	0	0	0	0	883	883
Corporate income tax liabilities	0	0	0	0	2,163	27	2,190
Other liabilities	0	417	14	404	0	0	835
Share capital	0	0	0	0	0	89,600	89,600
Capital reserves	0	0	0	0	0	1,139	1,139
Revaluation surplus	0	0	0	0	0	(331)	(331)
Reserves from profit (including profit retained)	0	0	0	0	0	17,566	17,566
Treasury shares	0	0	0	0	0	(1,324)	(1,324)
Undistributed net profit	0	0	0	0	0	904	904
TOTAL LIABILITIES OF SID BANK	**0**	**14,767**	**7,825**	**41,331**	**368,573**	**816,222**	**1,248,717**
LIABILITIES FROM CONTINGENCY RESERVES	**0**	**0**	**0**	**0**	**0**	**107,278**	**107,278**
IREP LIABILITIES	**0**	**0**	**0**	**0**	**0**	**5,395**	**5,395**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES OF SID BANK	**63**	**(4,238)**	**11,694**	**69,026**	**29,535**	**(106,081)**	**0**

5.8.2. Exposure to currency risk as at 31 December 2007

In EUR thousand	EUR	USD	Other currencies	Total
Cash and balances with the central bank	298	0	0	298
Financial assets held for trading	119	10	0	129
Available-for-sale financial assets	40,728	0	0	40,728
Credit	1,168,997	23,499	0	1,192,496
Property, plant and equipment	5,091	0	0	5,091
Intangible assets	600	0	0	600
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	0	0	7,712
Corporate income tax assets	1,373	0	0	1,373
Other assets	290	0	0	290
TOTAL ASSETS OF SID BANK	**1,225,208**	**23,509**	**0**	**1,248,717**
INVESTMENTS FROM CONTINGENCY RESERVES	**107,278**	**0**	**0**	**107,278**
INVESTMENTS FROM INTEREST RATE EQUALISATION PROGRAMME (IREP)	**5,395**	**0**	**0**	**5,395**
Financial liabilities held for trading	186	0	0	186
Financial liabilities measured at amortised cost	1,115,738	21,331	0	1,137,069
Provisions	845	8	30	883
Corporate income tax liabilities	2,190	0	0	2,190
Other liabilities	835	0	0	835
Share capital	89,600	0	0	89,600
Capital reserves	1,139	0	0	1,139
Revaluation surplus	(331)	0	0	(331)
Reserves from profit (including profit retained)	17,566	0	0	17,566
Treasury shares	(1,324)	0	0	(1,324)
Net profit	904	0	0	904
TOTAL LIABILITIES OF SID BANK	**1,227,348**	**21,339**	**30**	**1,248,717**
LIABILITIES FROM CONTINGENCY RESERVES	**107,278**	**0**	**0**	**107,278**
IREP LIABILITIES	**5,395**	**0**	**0**	**5,395**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES OF SID BANK	**(2,140)**	**2,170**	**(30)**	**0**

5.8.3. Exposure to interest rate risk as at 31 December 2007

In EUR thousand	Total	Interest free	Total interest accrued	Sight	Up to 1 month	1 to 3 months	3 to 12 months	1 – 5 years	Over 5 years
Cash and balances with the central bank	298	0	298	0	0	0	0	0	298
Financial assets held for trading	129	129	0	0	0	0	0	0	0
Financial assets measured at amortised cost	40,728	534	40,194	266	1,220	0	10,137	19,459	9,112
Credit	1,192,496	13,824	1,178,672	63	9,103	19,455	97,645	374,507	677,899
Property, plant and equipment	5,091	5,091	0	0	0	0	0	0	0
Intangible assets	600	600	0	0	0	0	0	0	0
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	7,712	0	0	0	0	0	0	0
Corporate income tax assets	1,373	1,373	0	0	0	0	0	0	0
Other assets	290	290	0	0	0	0	0	0	0
TOTAL ASSETS OF SID BANK	**1,248,717**	**29,553**	**1,219,164**	**329**	**10,323**	**19,455**	**107,782**	**393,966**	**687,309**
INVESTMENTS FROM CONTINGENCY RESERVES	**107,278**	**1,011**	**106,267**	**0**	**2,784**	**400**	**21,250**	**40,403**	**41,430**
INVESTMENTS FROM INTEREST RATE EQUALISATION PROGRAMME (IREP)	**5,395**	**30**	**5,365**	**24**	**0**	**700**	**1,750**	**2,399**	**492**
Financial liabilities held for trading	186	186	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	1,137,069	12,555	1,124,514	0	14,414	37,188	10,818	312,761	749,333
Provisions	883	883	0	0	0	0	0	0	0
Corporate income tax liabilities	2,190	2,190	0	0	0	0	0	0	0
Other liabilities	835	835	0	0	0	0	0	0	0
Share capital	89,600	89,600	0	0	0	0	0	0	0
Capital reserves	1,139	1,139	0	0	0	0	0	0	0
Revaluation surplus	(331)	(331)	0	0	0	0	0	0	0
Reserves from profit (including profit retained)	17,566	17,566	0	0	0	0	0	0	0
Treasury shares	(1,324)	(1,324)	0	0	0	0	0	0	0
Net profit for the period	904	904	0	0	0	0	0	0	0
TOTAL LIABILITIES OF SID BANK	**1,248,717**	**124,203**	**1,124,514**	**0**	**14,414**	**37,188**	**10,818**	**312,761**	**749,333**
LIABILITIES FROM CONTINGENCY RESERVES	**107,278**	**107,278**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
IREP LIABILITIES	**5,395**	**5,395**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
SID Bank's net exposure to interest rate risk	**0**	**(94,650)**	**94,649**	**329**	**(4,091)**	**(17,733)**	**96,963**	**81,205**	**(62,024)**
Cumulative exposure of SID Bank	**0**	**(94,650)**	**(1)**	**328**	**(3,762)**	**(21,495)**	**75,468**	**156,673**	**94,649**

5.9. Events after the balance sheet date

There were no business events after the balance sheet date that would influence the separate financial statements for 2007.

6. Disclosures

6.1. Assets and liabilities carried at fair value

In EUR thousand	2007 Book value	2007 Fair value	2006 Book value	2006 Fair value
Cash and balances with the central bank	298	298	0	0
Financial assets held for trading	129	129	157	157
Available-for-sale financial assets	40,728	40,728	35,411	35,411
Credit	1,192,496	1,194,007	758,517	759,073
- Loans to banks	*915,674*	*916,858*	*594,174*	*594,557*
- Loans to clients other than banks	*276,822*	*277,149*	*164,343*	*164,516*
Property, plant and equipment	5,091	5,698	5,152	5,698
Intangible assets	600	600	609	609
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	7,712	6,322	6,322
Corporate income tax assets	1,373	1,373	55	55
- Assets for corporate income tax	*1,229*	*1,229*	*0*	*0*
- Assets for deferred taxes	*144*	*144*	*55*	*55*
Other assets	290	290	254	254
TOTAL ASSETS OF SID BANK	**1,248,717**	**1,250,835**	**806,477**	**807,579**
Financial liabilities held for trading	186	186	163	163
Financial liabilities measured at amortised cost	1,137,069	1,137,553	694,395	694,708
- bank deposits	*26,205*	*26,205*	*0*	*0*
- Deposits of clients other than banks	*32,880*	*32,880*	*43*	*43*
- Loans of banks	*1,069,125*	*1,069,609*	*694,352*	*694,665*
- debt securities	*8,859*	*8,859*	*0*	*0*
Provisions	883	883	1,742	1,742
Corporate income tax liabilities	2,190	2,190	2,558	2,558
- tax liabilities	*2,163*	*2,163*	*2,521*	*2,521*
- deferred tax liabilities	*27*	*27*	*37*	*37*
Other liabilities	835	835	3,221	3,221
TOTAL LIABILITIES	1,141,163	1,141,163	702,079	702,079
TOTAL EQUITY	107,554		104,398	
TOTAL LIABILITIES AND EQUITY OF SID BANK	**1,248,717**	**1,141,647**	**806,477**	**702,392**

The financial instruments in SID Bank's balance sheet disclosed at fair value include financial assets and liabilities held for trading, financial assets available for sale and issued debt securities.

The fair values of loans, property, plant and equipment and financial liabilities measured at amortised cost differ from their book values disclosed in the balance sheet.

All listed financial investments are initially recognised at fair value. Upon initial recognition, the fair value of a financial instrument is typically the cost of transaction. In any subsequent measurement of financial instruments, the market price of the financial instrument is used (purchase or offer price).

The fair value of granted and raised loans to/from banks and non-banks is the principal as at 31 December 2007 and the accrued interest for the period.

The fair value of property, plant and equipment was only calculated for the construction facility. The assessment was prepared on the basis of inquiries for the purchase of similar facilities comparable by size, activity and location.

The material bases for all other items of property, plant and equipment and intangible assets that would justify the reasons for the deviation of the carrying amount from the fair value are checked at least once a year. It was assessed that the carrying amount is a good approximation of the fair value.

6.2. Sensitivity analysis

6.2.1. Loans and deposits

The sensitivity analysis for total loans and deposits is based on the assumption that the market interest rate would change by 100 basis points (1% p.a.) which, according to management, represents the changes in the interest rates that were reasonably possible at that date. The impact on net interest income in the first year of change has also been calculated.

If the market interest rates increased by 100 basis points, net interest income would increase by EUR 540 thousand in 2008 (by EUR 418 thousand in 2007). The change would be reflected as higher revenues in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed - the net interest income would decrease by EUR 540 thousand in 2008 (by EUR 418 thousand in 2007).

6.2.2. Debt securities

The sensitivity analysis of the securities portfolio carried out by SID Bank was based on the change in the of interest rate. The analysis shows how the fair values of securities or future cash flows of financial instruments would fluctuate due to the changes in market interest rates on the reporting date. The analysis does not include mutual funds which do not respond to the changes in interest rates to the same extent as debt financial instruments – bonds with fixed or variable interest rate.

The analysis separately calculates the responsiveness of bonds with variable and those with fixed interest rates in view of the changes in the market interest rate. The calculation takes into account the average maturity of the portfolio which was 3.13 years in 2007 (3 years in 2006). The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1% p.a.).

In bonds with a variable interest rate, the change in market interest rate by 100 basis points is reflected in an equal amount of the change in the coupon of such bonds. If the market interest rates increased by 100 basis points, the portfolio of SID Bank would increase by EUR 94,840 in 2007 (by EUR 80,663 in 2006), which represents an increase of 1% of the portfolio in real terms. The change would be reflected as a gain in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed - the portfolio would decrease by EUR 94,840 in 2007 (by EUR 80,663 in 2006). The total change would be reflected as a loss in the income statement.

In bonds with a fixed interest rate, the increase in the market interest rate by 100 basis points would mean a reduction of the portfolio by 270 basis points or 2.7% in 2007. For 2007, this means reduction by EUR 843,811 (2006: EUR 773,461). The total difference would be reflected as a reduction directly in capital. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed - the portfolio would increase by EUR 843,811 in 2007 (by EUR 773,461 in 2006). The total change would be reflected as an increase directly in capital.

For the total portfolio of bonds, the increase in the market interest rate by 100 basis points in 2007 would result in the reduction of the value of portfolio by EUR 748,971 of which EUR 843,811 would be reflected directly in capital and as a gain in the amount of EUR 94,840 in the income statement (for 2006: the change totalled EUR 692,798, of which EUR 773,461 as a decrease in capital and as a gain totalling EUR 80,663 in the income statement). For the total portfolio of bonds, the decrease in the market interest rate by 100 basis points in 2007 would result in the increase of the value of portfolio by EUR 748,971, of which EUR 843,811 would be reflected directly in capital and as a loss totalling EUR 94,840 in the income statement (for 2006: the change totalled EUR 692,798, of which EUR 773,461 as an increase in capital and as a loss totalling EUR 80,663 in the income statement).

6.3. Credit Risk

6.3.1. Total credit exposure

In EUR thousand	31.12.2007	31.12.2006
Gross exposure	1,209,664	761,528
Individual impairments	(6,258)	(5,806)
Other impairments	(9,381)	(7,571)
Deferred fees and commissions	(1,529)	(555)
Net exposure	1,192,496	747,596

6.3.2. Loan rescheduling

As at 31 December 2007, the carrying amount of rescheduled loans amounted to EUR 4,824 thousand. The new agreement on the conditions for the repayment of liabilities was reached for two Slovene companies.

The expected cash flow was taken into account in the establishment of the amount of impairments.

6.3.3. Individually impaired loans

In EUR thousand	2007	2006
Gross exposure	18,393	14,165
Individual impairments	(6,258)	(5,806)
Deferred fees and commissions	(37)	0
Net exposure	12,098	8,359

Receivables from clients for which individual impairments were formed are collateralised by receivable assignment contracts, pledged equity interests, mortgaged commercial real estate, pledged rights to inventories and assignment of insurance policies.

6.4. Value of collateral for granted and received loans

Total value of loan collateral as at 31 December 2007 was EUR 212,118 thousand.

In terms of the type of collateral, the assignment of receivables as collateral represents the largest proportion, followed by other corporate guarantees without a credit rating or with a rating below A-, pledged commercial real estate at market value, pledged receivables as collateral with value assessment, insurance policies of SID Bank on behalf of the Republic of Slovenia and other collateral.

Liabilities arising from raised foreign loans are fully collateralised by the guarantee of the Republic of Slovenia.

6.5. Overdue claims

As at 31 December 2007, the carrying amount of the outstanding receivables from guarantees given amounted to EUR 318 thousand.

SID Bank's receivables due from BIRO 71 d.o.o. originate from 2002 and 2003 when the guarantee issued on the basis of the Guarantee Contract no GP-00066 of 31 August 2000 was realised in several instalments.

The above receivable which totalled EUR 2,253 thousand of principal and EUR 74 thousand of interest as at 31 December 2007 (gross value) was collateralised by mortgage on the real estate at lot no. 263, LRD Ljubljana – Mesto (at the moment, the ideal co-ownership share is 322/1000) on the basis of the notarial deed no. SV 1489/2000 made b the notary public Miro Košak. The mortgage of SID Bank is registered in second place, immediately following the mortgage of the Republic of Slovenia, Ministry of Finance, TARS, Tax Office Ljubljana.

SID Bank is currently making arrangements with the authorised representative of BIRO 71 d.o.o., lawyer Carmen Dobnik on the sale of the aforementioned real estate outside the enforcement procedure, expecting to get more than the carrying amount of the unpaid receivable.

6.6. Equity

Pursuant to the Banking Act, SID Bank calculates its capital and capital adequacy for transactions carried out on its own behalf and for its own account from its own resources, without the transactions that are financed by borrowing on foreign financial markets on its own behalf and for its own account and based on the guarantee issued by the Republic of Slovenia.

In EUR thousand	31.12.2007
Share capital	89,600
Treasury shares	(1,324)
Capital reserves	1,139
Profit reserves and retained earnings	17,566
Core capital deduction items	(14,611)
Core capital	92,370
Tier I additional capital	46
Deduction items from core capital and Tier I additional capital	(7,293)
Tier II additional capital	0
Total equity	82,329

a) Core capital deduction items

In EUR thousand	31.12.2007
Intangible assets	600
Difference between the reported impairments and provisions according to IFRS and the regulation on loss assessment	6,718
Total	7,318

b) Core capital and additional capital deduction items

In EUR thousand	31.12.2007
Investments in other financial institutions that individually exceed 10% of the institution's capital	3,087
Share in insurance companies	4,206
Total	7,293

7. Appendices

ANNEX 1

7.1. Separate balance sheet disclosing liabilities and investments from own sources and liabilities and investments from the sources backed by the guarantee of the Republic of Slovenia

Assets and liabilities from the own resources		
In EUR thousand	31.12.2007	31.12.2006
Cash and balances with the central bank	298	0
Financial assets held for trading	129	157
Available-for-sale financial assets	30,689	35,411
Credit	138,613	72,267
- Loans to banks	*94,405*	*50,059*
- Loans to clients other than banks	*44,208*	*22,208*
Property, plant and equipment	5,091	5,152
Intangible assets	600	609
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	6,322
Corporate income tax assets	1,373	55
- Assets for corporate income tax	*1,229*	*0*
- Assets for deferred taxes	*144*	*55*
Other assets	290	254
TOTAL ASSETS	**184,795**	**120,227**
Financial liabilities held for trading	186	163
Financial liabilities measured at amortised cost	67,944	42
- Bank deposits	*26,205*	*0*
- Deposits of clients other than banks	*32,880*	*42*
- Debt securities	*8,859*	*0*
Provisions	863	1,053
Corporate income tax liabilities	2,190	2,558
- Tax liabilities	*2,163*	*2,521*
- Deferred tax liabilities	*27*	*37*
Other liabilities	5,971	12,013
TOTAL LIABILITIES	77,154	15,829
Share capital	89,600	38,906
Capital reserves	1,139	27,631
Revaluation surplus	(244)	130
Reserves from profit (including profit retained)	17,566	38,747
Treasury shares	(1,324)	(1,324)
Undistributed net profit	904	308
TOTAL EQUITY	107,641	104,398
TOTAL LIABILITIES AND CAPITAL	**184,795**	**120,227**

Liabilities and investments from sources backed by the guarantee of the Republic of Slovenia		
In EUR thousand	31.12.2007	31.12.2006
Available-for-sale financial assets	10,039	0
Credit	1,053,883	686,250
- Loans to banks	*821,269*	*538,957*
- Loans to clients other than banks	*232,614*	*147,293*
Other assets	5,136	8,791
TOTAL ASSETS	**1,069,058**	**695,041**
Financial liabilities measured at amortised cost	1,069,125	694,352
- Loans of banks	*1,069,125*	*694,352*
Provisions	20	689
TOTAL LIABILITIES	1,069,145	695,041
Revaluation surplus	(87)	0
TOTAL EQUITY	(87)	0
TOTAL LIABILITIES AND CAPITAL	**1,069,058**	**695,041**

7.2. Separate income statement disclosing operations financed by own sources and operations backed by the guarantee of the Republic of Slovenia

Operations financed by own sources		
In EUR thousand	2007	2006
Interest and similar revenues	6,367	5,053
Interest expenses and similar expenses	(1,216)	(268)
Net interest	5,151	4,785
Revenues from dividends	1,031	33
Revenues from commissions	336	273
Expenses for commissions	(34)	(42)
Net fees and commissions	302	231
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss	(21)	(33)
Net gain/loss from financial assets and liabilities held for trading	20	130
Changes in fair value when calculating risk insurance	0	20
Net gain/loss from exchange rate differences	68	(41)
Net gains/losses from derecognition of assets, excluding non-current assets	0	(6)
Other net operating profits/losses	2,480	2,490
Administrative costs	(5,240)	(4,767)
Amortisation/Depreciation	(562)	(432)
Provisions	40	1,449
Impairments	504	(2,403)
Profit from ordinary operations *	**3,773**	**1,456**

Operations backed by the guarantee of the Republic of Slovenia		
In EUR thousand	2007	2006
Interest and similar revenues	41,181	22,280
Interest expenses and similar expenses	(37,594)	(19,565)
Net interest	3,587	2,715
Revenues from dividends	0	0
Revenues from commissions	230	62
Expenses for commissions	(68)	(41)
Net fees and commissions	162	21
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3	0
Net gain/loss from exchange rate differences	(325)	(441)
Other net operating profits/losses	113	116
Provisions	668	(233)
Impairments	(3,890)	(172)
Profit from ordinary operations *	**318**	**2,006**

* only shown up to gross profit, tax calculated on total result

7.3. Financial statements disclosing insurance against non-marketable risks (on behalf of the Republic of Slovenia)

Balance sheet

In EUR thousand	31.12.2007	31.12.2006
Loans to banks	62,803	68,425
Loans to clients other than banks	2,520	2,686
Available-for-sale financial assets	38,278	27,891
Other assets	3,677	3,702
TOTAL CONTINGENCY RESERVES	**107,278**	**102,704**
Safety margin	102,965	97,848
Revaluation surplus from available-for-sale financial assets	(330)	(124)
Other liabilities	4,643	4,980
TOTAL LIABILITIES FROM CONTINGENCY RESERVES	**107,278**	**102,704**

Profit or loss

In EUR thousand	2007	2006
Interest and similar revenues	4,249	2,586
Net interest	4,249	2,586
Technical items		
- Insurance and reinsurance premiums	*3,875*	*6,660*
- Reinsurance and processing fee	*(155)*	*(439)*
- Claims	*(349)*	*(994)*
- Recourses	*68*	*81*
- Bonuses	*(1)*	*0*
Total technical items	3,438	5,307
Other net fees and commissions	6	13
Net gain from financial transactions	(90)	(26)
Operating costs	(2,486)	(2,487)
Surplus of income over expenses	**5,117**	**5,393**

The contents and basis of operations of SID Bank on behalf of the Republic of Slovenia are described in items 5.3.1 herein.

7.4. Financial statements of the interest rate equalisation programme (on behalf of the Republic of Slovenia)

Balance sheet

In EUR thousand	31.12.2007	31.12.2006
Loans to banks	1,476	1,461
Available-for-sale financial assets	3,918	0
TOTAL INVESTMENTS WITHIN THE INTEREST RATE EQUALISATION PROGRAMME	**5,394**	**1,461**
Safety margin	5,402	1,461
Surplus from revaluation of available-for-sale financial assets	(9)	0
Other liabilities	1	0
TOTAL LIABILITIES WITHIN THE INTEREST RATE EQUALISATION PROGRAMME	**5,394**	**1,461**

Profit or loss

In EUR thousand	2007	2006
Interest and similar revenues	95	0
Net interest	95	0
Net gain from financial transactions	2	0
Operating costs	(2)	0
Surplus of income over expenses	**95**	**0**

The contents and basis of operations of SID Bank on behalf of the Republic of Slovenia are described in items 5.3.2 herein.

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INDEPENDENT AUDITOR'S REPORT TO THE MANAGEMENT BOARD OF SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, d.d., LJUBLJANA

FOR REPORTING TO THE BANK OF SLOVENIA PURSUANT TO THE REGULATION ON THE AUDIT REVIEW OF THE ANNUAL REPORTS OF BANKS AND SAVINGS BANKS

In connection with:

- disclosures referred to in Article 207(1) of the Banking Act (Official Gazette of the Republic of Slovenia No. 131/2006 and 1-2/2008; hereinafter "ZBan-1"),
- the quality of information system, and
- compliance with risk management rules,

we reviewed/audited whether SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter "the Bank") complied with ZBan-1 and its implementing regulations – Regulation on Disclosures by Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135; hereinafter "the Regulation on Disclosures"), Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006, 28/2007, 104/207; hereinafter "the Regulation on Risk Management"), Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 28/2007; hereinafter "the Regulation on Loss Assessment") and Regulation on the Calculation of Own Funds of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006 and 104/2007; hereinafter "the Regulation on the Calculation of Own Funds") – in the financial year ended 31 December 2007.

The appropriateness of disclosures referred to in Article 207(1) of the Banking Act, information system quality, and compliance with risk management rules laid down in the above regulations are the responsibility of the Bank's Management Board. Our responsibility is to issue a report based on a review/audit of compliance with the above regulations.

Scope of review/audit

The review of the information system was conducted in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the reviewed information is free of material misstatement. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to the information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. We believe that our review provides a reasonable basis for our assurance conclusions.

The review of the appropriateness of disclosures referred to in Article 207(1) of the Banking Act and review of compliance with risk management rules were conducted in accordance with the International Standard on Auditing 800 – The Auditor's Report on Special Purpose Audit Engagements. The standard requires that we plan and perform the audit to obtain reasonable assurance about whether disclosures made in the annual report in accordance with Article 207(1) of the Banking Act are free of material misstatements and whether the Bank complied with all relevant provisions of general risk management standards as provided by the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks. An audit also includes assessing the principles used and estimates made by management as well as evaluating the overall presentation of the appropriateness of disclosures and compliance with risk management rules. We believe that our audit provides a reasonable basis for our opinion.

Opinion on disclosures

In our opinion, the Bank's disclosures referred to in Article 207(1) of ZBan-1 for the accounting period ended 31 December 2007 comply, in all material respects, with the provisions of ZBan-1 and the Regulation on Disclosures.

In terms of content, disclosures from Article 207(1) of ZBan-1 are consistent with the annual report.

In our opinion, the Bank's disclosure policies are appropriate and comply, in all material respects, with the Regulation on Disclosures.

Assurance on the quality of the information system

Based on our review, nothing has come to our attention that causes us to believe that:

- risk management information support does not comply, in all material respects, with the Bank's internal documented rules and requirements of the Bank of Slovenia;
- information system security does not comply, in all material respects, with the Bank's documented information system development strategy or with recommendations laid down in the Slovene standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 issued by the Slovene Standardisation Institute or other authorised body.

Without qualifying our opinion, we wish to point out the following:

- information systems for the management of market risks, interest rate risk, operational risk and liquidity risk mostly exist in the form of Excel spreadsheets and are thus subject to the possibility of errors in the capturing and presenting of data;
- our tests revealed that in its documented policies as well as in practice, the Bank applies several recommendations laid down in the information security system standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 issued by the Slovene Standardisation Institute or other authorised body, and other good practices. Certain deviations from good practices discovered during our audit procedures are known to the Bank.

Opinion on compliance with risk management rules

In our opinion, the Bank complied, in all material respects, with the following as at 31 December 2007:

- general standards on credit risk management, market risk management, interest rate risk management, liquidity risk management and operational risk management, which are laid down in Appendices I to V of the Regulation on Risk Management;
- provisions of the Regulation on Loss Assessment, in connection with credit risk;
- provisions of the Regulation on the Calculation of Own Funds, in connection with own funds and capital requirements;

– provisions of ZBan-1, in connection with Internal Audit activities.

Without qualifying our opinion in connection with Article 16 of the Regulation on the Audit Review of the Annual Reports of Banks and Savings Banks, we wish to point out the following:

- the Bank's methodology for identifying, measuring, managing and monitoring concentration risk within the credit risk by industries and countries is insufficient;
- the Bank has not yet established a methodology for assessing the value of collaterals.

Without qualifying our opinion, we point out in connection with Article 26 of the Regulation on the Audit Review of the Annual Reports of Banks and Savings Banks that the Bank has not yet prepared a scenario for liquidity management in extraordinary situations – appropriate procedures are determined when such events occur.

Without qualifying our opinion, we point out in connection with point 6.4 of the Regulation on the Audit Review of the Annual Reports of Banks and Savings Banks that although the Bank had already adopted a physical security plan, it did not carry out in 2007 the supervision of security provided by a private company as laid down in Appendix IV – General Operational Risk Management Standards in accordance with the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks. Under the above provisions, the Bank has to ensure that the said supervision is conducted at least every two years, meaning that up to the date of issue of the auditor's report the obligatory deadline has not yet expired.

Without qualifying our opinion, we wish to point out that the Bank has still not fully implemented auditor's recommendations from previous years, which are related to the following areas:

- accounting recording of derivative financial instruments (partly implemented),
- information support for the preparation of reports on capital (partly implemented),
- shortcomings of the business continuity plan (partly implemented),
- integration of strategy into the process of planning in the area of IT (partly implemented),
- undefined methodology for the development of applications and transfer of programmes into the production environment (partly implemented).

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Ljubljana, Slovenija 1

Andreja Bajuk Mušič

Certified Auditor

Andreja Bajuk Muše

Yuri Sidorovich

Partner/President of the Board

Ljubljana, 27 April 2008

III. Consolidated financial statements of the SID Bank Group

Content

Statement of the Management Board on consolidated financial statements of the SID Bank Group

On 10 March 2008, the Management Board confirmed the consolidated financial statements of the SID Bank Group for the year ended 31 December 2007. The financial statements have been compiled in line with the International Financial Reporting Standards (IFRS) as adopted by the EU.

The Management Board reasonably believes that the SID Bank Group has sufficient business resources to continue its operations. Therefore, the financial statements were justifiably compiled on a going concern basis.

The management is responsible for the following:

- Appropriate accounting policies which are applied consistently,
- Business estimates and judgements that are reasonable and prudent,
- Any material deviations from the applied accounting standards are appropriately disclosed and explained,
- Financial statements are prepared on a going concern basis for the SID Bank Group, unless there are substantiated reasons to anticipate discontinuation of operation.

The Management Board is responsible for maintaining bookkeeping documents and records which disclose the financial status of the SID Bank Group with reasonable accuracy at all times. Furthermore, the Management Board is responsible for the preparation of financial statements in accordance with the legislation and regulations of the Republic of Slovenia. The Management Board must take all necessary steps to protect the assets of the SID Bank Group and carry out all the required procedures to prevent or discover potential fraud or violation.

SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana

Jožef Bradeško	Sibil Svilan, MSc,
Member of Management Board	President of Management Board

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INDEPENDENT AUDITOR'S REPORT

to the owners of the group SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana

Report on the Financial Statements

We have audited the accompanying financial statements of the group SID – Slovenska izvozna in razvojna banka d.d., Ljubljana (hereinafter "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards applicable in the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the Group's financial position as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards applicable in the EU.

Without qualifying our opinion, we draw attention to Note "5.3. – Reclassification of items in financial statements for the year 2006" to the consolidated financial statements where it is indicated that the Group changed an accounting policy dealing with the recording of equalisation provisions and recourse factoring operations. Had the above changes to the accounting policies been reflected in the balance as at 31 December 2006, total assets would have decreased by EUR 3,177 thousand.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 57(1) of the Companies Act (ZGD-1), we have reviewed the Group's business report. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Andreja Bajuk Mušič
Certified Auditor
Andreja Bajuk Mušič

Yuri Sidorovich
President of the Board

Ljubljana, 24 April 2008

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Ljubljana, Slovenija 3

1. Consolidated balance sheet as at 31 December 2007

In EUR thousand	Notes	31.12.2007	31.12.2006
Cash and balances with the central bank		299	2
Financial assets held for trading	5.4.1.	129	157
Available-for-sale financial assets	5.4.2.	63,034	54,620
Credit	5.4.3.	1,346,026	860,414
- Loans to banks		922,927	603,855
- Loans to clients other than banks		423,099	256,559
Tangible fixed assets	5.4.4.	5,569	5,549
Intangible assets	5.4.5	1,237	1,148
Long-term investments in equity of subsidiaries, associates and joint ventures	5.4.6.	419	29
Corporate income tax assets	5.4.7.	2,269	683
- Receivables for corporate income tax		*1,491*	*548*
- Receivables for deferred taxes		*778*	*135*
Other assets	5.4.8.	18,052	14,729
- Reinsurance contracts		*17,570*	*14,252*
- Other		*482*	*477*
TOTAL ASSETS OF THE SID BANK GROUP		**1,437,034**	**937,331**
INVESTMENTS FROM CONTINGENCY RESERVES		**107,278**	**102,704**
IREP INVESTMENTS		**5,395**	**1,461**
Financial liabilities held for trading	5.4.9.	186	163
Financial liabilities measured at amortised cost	5.4.10.	1,274,967	786,533
- Bank deposits		*22,637*	*0*
- Deposits of clients other than banks		*32,878*	*43*
- Loans of banks		*1,211,554*	*780,597*
- Loans of clients other than banks		*0*	*5,893*
- Debt securities		*7,898*	*0*
Provisions	5.4.11.	26,956	21,610
- Bank		*778*	*1,623*
- Technical		*23,803*	*18,322*
- Other		*2,375*	*1,665*
Corporate income tax liabilities	5.4.12.	2,427	3,719
- Tax liabilities		*2,400*	*2,521*
- Deferred tax liabilities		*27*	*1,198*
Other liabilities	5.4.13	4,908	5,604
TOTAL LIABILITIES		1,309,444	817,629
Share capital	5.4.14.	89,600	38,906
Capital reserves		1,139	27,631
Revaluation surplus	5.4.15.	(396)	251
Reserves from profit (including profit retained)	5.4.16.	31,835	50,516
Treasury shares	5.4.17.	(1,324)	(1,324)
Net profit for the year		6,736	3,722
TOTAL EQUITY		127,590	119,702
TOTAL LIABILITIES AND EQUITY OF THE SID BANK GROUP		**1,437,034**	**937,331**
LIABILITIES FROM CONTINGENCY RESERVES		**107,278**	**102,704**
IREP LIABILITIES		**5,395**	**1,461**

Accounting policies and notes are an integral part of the financial statements.

2. Consolidated income statement for the 2007 financial year

In EUR thousand	Notes	2007	2006
Interest and similar income		57,635	32,577
Interest expenses and similar expenses		(44,614)	(22,143)
Net interest	5.5.1.	13,021	10,434
Revenues from commissions		4,168	2,901
Expenses for commissions		(1,583)	(548)
Net fees and commissions	5.5.2.	2,585	2,353
Profits/losses from financial assets and liabilities not measured at fair value through profit and loss	5.5.3.	(78)	48
Net profit/loss from financial assets and liabilities held for trading	5.5.4.	20	130
Changes in fair value when calculating risk insurance		0	20
Net exchange rate gains/losses	5.5.5.	1,487	(490)
Net profits/losses from derecognition of assets, excluding non-current assets held for sale	5.5.6.	0	(6)
Other net operating profits/losses	5.5.7.	9,379	7,260
- Revenues from insurance premiums		*8,060*	*5,846*
- Expenses for insurance operations		*(1,267)*	*(947)*
- Other		*2,586*	*2,361*
Administrative costs	5.5.8.	(10,036)	(9,185)
Amortisation/Depreciation	5.5.9.	(746)	(537)
Provisions	5.5.10.	(2,818)	(1,159)
- Bank		*836*	*1,212*
- Technical		*(2,803)*	*(1,745)*
- Other		*(851)*	*(626)*
Impairments	5.5.11.	(4,564)	(478)
OPERATING PROFIT FROM ORDINARY ACTIVITIES		8,250	8,390
Corporate income tax related to ordinary activities	5.5.12.	(1,514)	(1,480)
NET PROFIT FOR THE CURRENT YEAR		6,736	6,910
a) Majority shareholders		6,736	6,910

Accounting policies and notes are an integral part of the financial statements.

3. Consolidated cash flow statement for the 2007 financial year

In EUR thousand	2007	2006
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit or loss before tax	8,250	8,390
Amortisation/Depreciation	745	535
Impairments of tangible fixed assets, investment property, intangible long-term assets and other assets	(42)	(13)
Net (profits)/losses due to exchange rate differences	1,537	490
Net (profits)-losses due to sales of tangible fixed assets and investment real estate	0	6
Net unrealised profit from capital revaluation adjustment of available-for-sale (financial assets excluding the effect of deferred tax)	(418)	467
Other net profit and loss adjustments before tax	5,792	(915)
Cash flows from operating activities before changes in operating assets and liabilities	15,864	8,960
b) (Increase)/decrease in operating assets	(517,903)	(201,122)
Net (increase)/decrease in financial assets recognised at fair value through profit and loss	18	0
Net (increase)/reduction in available-for-sale financial assets	(8,461)	(9,592)
Net (increase)/reduction in loans	(508,813)	(187,680)
Net (increase)/reduction in other assets	(647)	(3,850)
c) Increase/(decrease) in operating liabilities	485,436	232,837
Net increase/(reduction) in financial liabilities held for trading	23	(166)
Net increase/(decrease) in deposits and loans measured at amortised cost	486,110	230,198
Net increase/(reduction) in other liabilities	(697)	2,805
d) Cash flows from operating activities (a+b+c)	(16,603)	40,675
e) (Paid)/refunded corporate income tax	(3,298)	(2,003)
f) Net cash flows from operating activities (d+e)	(19,901)	38,672
B. CASH FLOWS FOR INVESTING ACTIVITIES		
a) Inflows from investing activities	248	205
Proceeds from the sale of property, plant and equipment and investment property	1	83
Proceeds from the sale of intangible long-term assets	247	122
Other inflows from investing activities	0	0
b) Outflows for investing activities	1,471	3,473
(Outflows for the acquisition of tangible fixed assets and investment property)	545	3,265
(Outflows for the acquisition of intangible long-term assets)	536	188
(Outflows for the acquisition of equity investments in subsidiaries, associates and jointly ventures)	390	20
c) Net cash flows from investing activities (a-b)	(1,223)	(3,268)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
a) Inflows from financing activities	500	0
Inflows from the issue of shares and other capital instruments	500	
b) Outflows for financing activities		1,324
(Outflows for the purchase of treasury shares)	0	1,324
c) Net cash flows from financing activities (a-b)	500	(1,324)
D. Effect of exchange rate fluctuations on cash and cash equivalents	(67)	0
F. Effect of fair value changes on cash and cash equivalents	0	0
F. Net increase in cash assets and cash equivalents (Ae+Bc+Cc)	(20,624)	34,080
G. Cash and cash equivalents at the beginning of the period	43,286	9,206
H. Cash and cash equivalents at the end of period (D+E+F+G)*	22,595	43,286

* The item includes cash on business account, cash in hand and bank deposits up to 90 days.

	31.12.2007	31.12.2006
Bank deposits up to 90 days	17,242	39,283
Cash in hand	1	2
Cash on business accounts with banks	5,352	4,001
Total	22,595	43,286

Accounting policies and notes are an integral part of the financial statements.

4. Consolidated statement of changes in equity

In 2007:

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Profit Reserves	Retained earnings	Treasury shares	Net profit	Total equity
BALANCE IN THE ACCOUNTING PERIOD (31 December 2006)	**38,906**	**27,631**	**251**	**24,618**	**25,898**	**(1,324)**	**3,722**	**119,702**
Effect of changes from the transition to the IFRS	0	0	0	1,588	0	0	0	1,588
OPENING BALANCE FOR THE PERIOD (1 January 2007)	**38,906**	**27,631**	**251**	**26,206**	**25,898**	**(1,324)**	**3,722**	**121,290**
Net gains/losses from revaluation of available-for-sale financial assets	0	0	(581)	0	0	0	0	(581)
Total net profit/loss after tax, recognised directly in equity – revaluation surplus	**0**	**0**	**(581)**	**0**	**0**	**0**	**0**	**(581)**
Net profit/loss for the financial year (from the income statement)	0	0	0	0	0	0	6,735	6,735
Total net profit/loss for financial year recognised in equity	**0**	**0**	**(581)**	**0**	**0**	**0**	**6,735**	**6,154**
Capital increase from existing components of equity	50,694	(26,492)	0	(6,893)	(17,308)	0	0	0
Allocation of net profit to profit reserves	0	0	0	3,355	1,156	0	(4,511)	0
Alignment of differences in the consolidation process	0	0	(66)	(94)	0	0	0	(160)
Changes in equity components due to amendments to accounting policies	0	0	0	7,945	(8,458)		513	0
Others	0	0	0	28	0	0	277	305
CLOSING BALANCE FOR THE PERIOD (31 December 2007)	**89,600**	**1,139**	**(396)**	**30,547**	**1,288**	**(1,324)**	**6,736**	**127,590**

Capital was increased in the amount of EUR 50,694 thousand from the existing components of equity (capital reserves, profit reserves and retained profit).

The initial balance takes into account the new balance of equity established by the insurance part of the SID Bank Group when adjusting the items to the IFRS. The change in equity components due to amended accounting policies is also the result of adjustments to the IFRS; the established retained profit was EUR 7,464 thousand lower and the profit reserve was accordingly increased by the same amount. The remaining part of the difference is the result of the alignment of net profit between the consolidated income statement and the consolidated balance sheet.

Certain differences arose from the consolidation process, which have been appropriately disclosed.

The item other shows the effect of the process of reducing the equalisation provisions, the tax effect from credit risk and unused tax losses and deferred taxes from credit risk.

The decrease in the amount of EUR 581 thousand is due to losses from the revaluation of available-for-sale financial assets.

Allocation of net profit to profit reserves is disclosed under a separate item.

In 2006:

In EUR thousand	Share capital	Capital reserves	Revaluation surplus	Profit Reserves	Retained earnings	Treasury shares	Net profit	OVERALL TOTAL
OPENING BALANCE FOR THE PERIOD (1 January 2006)	**38,906**	**27,631**	**536**	**19,197**	**26,810**	**0**	**1,282**	**114,362**
Net gains/losses from revaluation of available-for-sale financial assets	**0**	**0**	(283)	0	**0**	**0**	**0**	**(283)**
Net gains/losses due to exchange rate differences resulting from consolidation	0	0	(2)	0	0	0	0	**(2)**
Total net profit/loss after tax, recognised directly in equity – revaluation surplus	**0**	**0**	**(285)**	**0**	**0**	**0**	**0**	**(285)**
Net profit/loss for the financial year	0	0	0	0	0	0	6,910	**6,910**
Total net profit/loss for financial year recognised in equity	**0**	**0**	**(285)**	**0**	**0**	**0**	**6,910**	**6,625**
Net purchase/sale of treasury shares	0	0	0	0	0	(1,324)	0	**(1,324)**
Allocation of net profit to profit reserves	0	0	0	5,421	(951)	0	(4,470)	**0**
Other*	0	0	0	0	39	0	0	**39**
CLOSING BALANCE FOR THE PERIOD (31 December 2006)	**38,906**	**27,631**	**251**	**24,618**	**25,898**	**(1,324)**	**3,722**	**119,702**

Accounting policies and notes are an integral part of the financial statements.

5. Notes to consolidated financial statements

Items 1 to 4 of this report present the consolidated accounting statements of the SID Bank Group:
- Consolidated balance sheet as at 31 December 2007,
- Consolidated income statement for the 2007 financial year ,
- Consolidated cash flow statement for the 2007 financial year, and
- Consolidated statement of changes in equity for the 2007 financial year.

For comparison with the above-mentioned statements, data are also are presented as at 31 December 2006 or for the 2006 financial year which have been converted into EUR at the exchange rate EUR 1 = SIT 239.64.

Consolidated financial statements are presented in EUR thousands, unless otherwise indicated.

Consolidated financial statements are the financial statements of the Group presented as a single economic entity.

5.1. Basic information

The SID Group consists of the following:

- **Parent company**

SID - Slovenska izvozna in razvojna banka d.d., with registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana (hereinafter: SID Bank).

SID Bank was founded on 22 October 1992 as a special private-law financial institution for Securing and financing exports. As at 31 December 2007, SID Bank's share capital stood at EUR 89,600 thousand, divided into 932,354 ordinary registered no-par value shares issued in several issues. The most recent capital increase was based on the decision of the General Meeting of 31 July 2007 and realised from SID Bank's assets in the amount of EUR 50,694 thousand. The increase in share capital was entered in the Companies Register on 30 August 2007. The Republic of Slovenia holds the majority stake in SID Bank (91.15%). Other shareholders of SID Bank include banks, insurance companies, the Chamber of Commerce and Industry of Slovenia (CCIS) and many other Slovenian companies. As at 31 December 2007 SID Bank had 85 shareholders.

For its own account, SID Bank:
- Provides pre-shipment and post-shipment financing of international business transactions and international business cooperation,
- Issues guarantees,
- Enters into money, currency, capital and derivative market transactions,
- Provides credit rating and other credit information.

On behalf of the Republic of Slovenia, SID Bank as an authorised ECA performs:
- Short-term export credit insurance and reinsurance against non-commercial and other non-marketable risks;
- Investment insurance against non-commercial risks,
- Medium-term export credit insurance against commercial and/or non-commercial risks;
- Interest Rate Equalisation Programme (IREP) in financing international business transactions, and
- Other transactions on special authorisations.

The above division of the operations of SID Bank arises from the Act Governing Insurance and Financing of International Business Transactions (ZZFMGP) which entered into force on 14 February 2004 and regulates the majority of SID Bank's operations.

Activities performed by SID Bank for its own account are financed from its own resources while international commercial transactions are financed in accordance with the ZZFMGP, primarily by borrowing on foreign financial markets in its own name and on its own behalf and on the basis of the guarantees issued by the Republic of Slovenia. The operations of SID Bank for its own account from its own resources and operations other than insurance operations which are not subject to ZZFMGP are governed by bank regulations.

In view of the above, the financial statements of SID Bank comprise the assets and liabilities and the results of operations on its own behalf, while operations carried out on behalf of the Republic of Slovenia are presented in separate financial statements (further information on these operations is provided under Item 5.2.17).

As at 31 December 2007, SID Bank had 69 employees (as at 31 December 2006 there were 68).

SID Bank is a large company pursuant to Article 55 of ZGD-1.

Subsidiary companies

- SID - Prva kreditna zavarovalnica d.d., Ljubljana with registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana (hereinafter: PKZ), in which SID Banka hold a 100% stake,
- PRO KOLEKT, družba za izterjavo, d.o.o. Ljubljana with registered office at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia (hereinafter: PRO KOLEKT Ljubljana), in which SID Bank holds a 100% stake and which has six subsidiaries:
- PRO KOLEKT d.o.o. Zagreb with registered office at Savska cesta 41, 10144 Zagreb, Croatia (hereinafter: PRO KOLEKT Zagreb),
- PRO KOLEKT d.o.o. Skopje with registered office at Bulevar Goce Delčev 11, 91000 Skopje, Macedonia (hereinafter: PRO KOLEKT Skopje),
- PRO KOLEKT, društvo za izterjavo duga, d.o.o. Belgrade with registered office at Bulevar Mihajla Pupina 10ž, 11070 New Belgrade, Republic of Serbia (hereinafter: PRO KOLEKT Belgrade),
- S.C. PRO KOLEKT Credit Management Services Bucuresti s.r.l., Bucharest with registered office at Prof. George Murgoci Str.2, District 4, 040526 Bucharest, Romania (hereinafter: PRO KOLEKT Bucharest),
- PRO KOLEKT SOFIA EOOD, Sofia with registered office at 65, Shipchenski prohod Blvd.,1574 Sofia, Bulgaria (hereinafter: PRO KOLEKT Sofia),
- PRO KOLEKT d.o.o. Sarajevo with registered office at Ulica Hamdije Čermelića 2, 71000 Sarajevo, Bosnia and Herzegovina (hereinafter: PRO KOLEKT Sarajevo),

- **Joint ventures:**
- PRVI FAKTOR, faktoring družba, d.o.o., Ljubljana with registered office at Slovenska cesta 17, 1000 Ljubljana, Slovenia (hereinafter: PRVI FAKTOR Ljubljana), in which SID Bank holds a 50% stake and which has four subsidiaries:
  - PRVI FAKTOR, faktoring društvo, Zagreb with registered office at Hektorovićeva 2/V, 10000 Zagreb, Croatia (hereinafter: PRVI FAKTOR Zagreb),
  - PRVI FAKTOR - faktoring, d.o.o. Belgrade with registered office at Bulevar Mihajla Pupina 165/v, 11070 New Belgrade, Republic of Serbia hereinafter: PRVI FAKTOR Belgrade),
  - PRVI FAKTOR d.o.o., finansijski inžinjering, d.o.o., Sarajevo with registered office at Džemala Bijedića bb, 71000 Sarajevo, Bosnia and Herzegovina (hereinafter: PRVI FAKTOR Sarajevo),
  - PRVI FAKTOR d.o.o. Skopje with registered office at Mito Hasivasilev-Jasmin 20, 91000 Skopje, Macedonia (hereinafter: PRVI FAKTOR Skopje).
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- **Co-founded entity:**

Center za mednarodno sodelovanje in razvoj (Centre for International Cooperation and Development) Ljubljana, with registered office at Kardeljeva ploščad 1, 1000 Ljubljana, Slovenia (hereinafter: CMSR) engaged in business and entrepreneurial consultancy – a public institute.

Basic data on the companies in the SID Bank Group as at 31 December 2007:

In EUR thousand	SID Bank's stake	Voting rights	Nominal value of invest-ment	Capital	Assets	Liabilities	net sales revenues	Net profit (loss)	Number of employees
SID Bank				107,550	1,248,713	1,141,163	*48,113	3,612	69
PKZ	100%	100%	4,206	18,685	46,706	28,021	9,112	1,526	40
PK Ljubljana	100%	100%	419	259	370	111	346	(144)	7
PK Zagreb	100%	100%	14	(23)	3,598	3,621	121	(19)	3
PK Skopje	80%	80%	8	2	2	0	5	(6)	1
PK Belgrade	100%	100%	25	(21)	22	43	28	(46)	1
PK Bucharest	80%	80%	20	1	7	6	6	(23)	1
PK Sofia	100%	100%	26	15	26	11	5	(11)	1
PK Sarajevo	100%	100%	26	6	21	15	0	(19)	1
PF Ljubljana	50%	50%	3,087	6,806	123,811	117,005	2,031	1,661	35
PF Zagreb	50%	50%	2,651	4,507	158,980	154,473	1,573	1,161	39
PF Belgrade	50%	50%	1,250	6,201	75,570	69,369	2,155	4,294	25
PF Sarajevo	50%	50%	451	570	13,189	12,619	360	131	9
PF Skopje	50%	50%	5	5	5	0	0	0	0
CMSR Ljubljana	0	50%	0	97	1,727	1,630	343	35	9

* Net revenues of SID Bank include interest and commissions as its principal activity.

Basic data on the companies in the SID Bank Group as at 31 December 2006:

In EUR thousand	SID Bank's stake	Voting rights	Nominal value of investment	Capital	Assets	Liabilities	Net sales revenues	Net profit (loss)	Number of employees
SID Bank				102,704	806,477	702,079	*34,832	2,557	68
PKZ	100%	100%	4,206	18,420	40,150	21,731	7,313	968	38
PK Ljubljana	100%	100%	29	13	121	108	355	(17)	3
PK Zagreb	100%	100%	14	(4)	3,672	3,676	22	(17)	2
PK Skopje	80%	80%	8	8	7	1	3	(3)	1
PK Belgrade	100%	100%	25	25	25	0	0	0	0
PF Ljubljana	50%	50%	2,087	3,330	70,300	66,970	1,430	185	30
PF Zagreb	50%	50%	1,851	2,890	95,317	92,427	1,083	877	30
PF Belgrade	50%	50%	550	2,088	52,134	50,046	1,368	1,261	12
PF Sarajevo	50%	50%	51	65	2,754	2,689	62	14	4
PF Skopje	50%	50%	5	5	5	0	0	0	0
CMSR Ljubljana	0	50%	0	97	101	4	245	(13)	7

- **Consolidated companies**

Consolidated financial statements include the following companies:

- By the method of full consolidation:
  - Controlling company - SID Bank
  - Subsidiary – PKZ, in which SID Bank holds a 100% stake

- By the proportional consolidation method the PRVI FAKTOR Group. SID Bank holds a 50% stake (joint venture) in the parent company of the PRVI FAKTOR Group, PRVI FAKTOR Ljubljana. PRVI FAKTOR Ljubljana compiles consolidated financial statements for the PRVI FAKTOR Group. The PRVI FAKTOR Group consists of:
  - PRVI FAKTOR Ljubljana
  - PRVI FAKTOR Zagreb
  - PRVI FAKTOR Belgrade
  - PRVI FAKTOR Sarajevo

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In the consolidation process, all mutual receivables and liabilities between the companies of the SID Bank Group were excluded, as well as revenues and expenses generated within the SID Bank Group. There were no unrealised profits or losses arising from mutual transactions.
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In the case of the PRVI FAKTOR Group, all accounting relationships are included and mutual relationships are excluded, accounting for 50%. There are no minority interests.

- **Companies excluded from consolidation**

Due to immateriality for the true and fair representation of its financial position, income statement, cash flows and changes in equity, the following companies were not included in consolidation by SID Bank:
  - PRO KOLEKT Ljubljana
  - PRO KOLEKT Zagreb
  - PRO KOLEKT Skopje
  - PRO KOLEKT Belgrade
  - PRO KOLEKT Bucharest
  - PRO KOLEKT Sofia
  - PRO KOLEKT Sarajevo
  - CMSR Ljubljana

The total assets of all companies of the PRO KOLEKT Group account for less than 1% of the total assets of SID Bank. SID Bank has a controlling stake (100%) in the parent company PRO KOLEKT Ljubljana. The investment in the subsidiary PRO KOLEKT Ljubljana was included in the consolidated financial statements using the cost method.

The total assets of CMSR Ljubljana also account for less than 1% of the total assets of SID Bank. SID Bank no longer has investments in CMSR. It is merely a co-founder with the Republic of Slovenia.

5.2. Accounting policies

The financial statements of the SID Bank Group and the notes thereto are compiled in accordance with the International Standards of Financial Reporting, as adopted by the European Union (hereinafter: the IFRS), taking into account regulations of the Bank of Slovenia and the Insurance Supervision Agency, with the exception of the regulations on the disclosure of equalisation provisions.

In compiling these financial statements the basic accounting assumptions were taken into account:
- Accrual basis,
- Going concern,
- True and fair presentation under the circumstances of a fluctuating value of the euro and of individual prices, disregarding hyperinflation.

Accounting policies shall only change if the change:
- Is required by a standard or an interpretation; or
- Results in the financial statements providing more reliable and relevant information.

Below we present the most important accounting policies which serve as the measurement basis used for the compilation of financial statements and other accounting policies that are relevant to the understanding of the financial statements.

5.2.1. Functional and reporting currency

The consolidated financial statements are presented in EUR, which is the SID Bank Group's functional and reporting currency.

The financial statements of the SID Bank Group that have a functional currency different from the reporting currency of the SID Bank Group are translated into the reporting currency as follows:

a) Assets and liabilities are translated at the exchange rate as at the balance sheet date,
b) Revenues, costs and expenses are translated at the average monthly exchange rate,
c) All resulting exchange rate differences are recognised as consolidation equity adjustment.

5.2.2. Foreign currency translation

Assets and liabilities, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the balance sheet date. Revenues and expenses, denominated in foreign currencies, are translated into EUR at the mean exchange rate of the European Central Bank as at the date of the business event.

All business events in foreign currency are converted into the functional currency at the exchange rate on the transaction date. Exchange rate differences arising on the settlement of cash items or on translating cash items at rates different from those at which they were translated on initial recognition are recognised as gains or losses from exchange rate differences in the income statement for the period in which they arise.

Exchange rate differences measured at fair value through profit or loss are disclosed in the income statement as part of gains or losses arising from evaluation at fair value.

Exchange rate differences on available-for-sale assets are disclosed in revaluation surplus together with the effect of valuation at fair value.

At each balance sheet date:
- Foreign currency cash items are translated using the closing rate;
- Non-cash items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- Non-cash items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

5.2.3. Cash and cash equivalents

Cash assets consist of cash and cash equivalents. Cash comprises cash on hand, bank accounts at banks and cash in transit. Cash assets are disclosed separately for the local and foreign currencies.

In the balance sheet, cash on hand is a constituent part of the item cash and balances with the central bank. Balances of bank accounts and cash in transit are part of the item loans to banks.

In the cash flow statement, all cash items and deposits with banks with original maturity of less than 90 days after acquisition are disclosed as cash and cash equivalents.

All items of cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash.

5.2.4. Financial assets held for trading

In the SID Bank Group, financial assets held for trading, as one of the two types of financial assets measured at fair value through profit and loss, include derivatives that do not meet all the criteria for the use of hedge accounting. Financial assets are recognised at the settlement date.

Derivatives are primarily forwards and swaps.

Upon initial recognition at cost, derivatives are disclosed at fair value determined on the basis of quoted market prices or, in the absence of those, according to the method of discounted future cash flows. In the income statement, they are disclosed as realised gains or losses and in the balance sheet as assets if their fair value is positive, and as liabilities, if their fair value is negative.

Change in the fair value of derivatives is disclosed under the item net gains/loss arising from financial assets and liabilities held for trading.

5.2.5. Available-for-sale financial assets

Available-for-sale financial assets include those assets which the SID Bank Group plans to possess for an indefinite period of time and can be sold for the needs of liquidity or other purposes. These assets are mostly debt securities.

After initial recognition, financial assets are measured at fair value which is typically equal to their purchase cost. The purchase cost includes the purchase price and the costs directly attributable to the acquisition of the asset. Financial assets are recorded at the date of transaction.

The usual dates of purchase/sale of securities are set at T + 3 days for foreign securities and T + 2 days for treasury bills, while domestic securities are usually settled on the date of the contract on the purchase/sale of securities. In all securities, interest is paid until the day the contractual amount is settled.

The amortised cost of debt securities is calculated upon initial recognition according to the effective interest rate method which equally distributes the revenues over the entire period for which the asset is held, i.e. from the purchase until maturity – the calculation is based on yield until maturity.

After the initial recognition, debt securities are disclosed at fair value, based on quoted market prices. Exchange differences from debt securities are recognised in the income statement. The effect of revaluation with exchange differences to the fair value is disclosed as revaluation surplus (in capital). If there is a significant negative effect of a permanent nature, it could represent unbiased evidence for impairment. If such evidence exists, the accumulated loss recognised in the surplus is transferred to the income statement.

5.2.6. Loans (loans and receivables)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Assets are recorded off-balance sheet on the date of transaction and in the balance sheet on the date of settlement.

The item includes loans to banks, loans to clients other than banks, bank deposits and factored receivables.

Upon initial recognition, loans and deposits are measured at cost (in the amount of transferred funds) increased by directly attributable costs of the transaction. After the initial recognition, they are disclosed at amortised cost consisting of the initial value of the principal reduced by potential repayments and increased by accrued interest for the period and charged loan approval fees.

Profit or loss arising from investments in loans is recognised in the income statement when such assets are impaired or derecognised. Restatements of financial assets expressed in foreign currencies are recognised in profit or loss.
Thus the revenues from loan approval fees are evenly distributed through the entire period of loan repayment. The Management Board of SID Bank believes that the even distribution of revenues arising from approval fees over the loan repayment period is a good approximation for the recognition of these revenues using the effective interest rate method.

5.2.7. Impairments

a) Impairments of financial assets measured at amortised cost and assumed off-balance liabilities,

The financial assets hereunder also include loans to banks, loans to non-bank clients, bank deposits and guarantees.

SID Bank classifies financial assets into individually or collectively impaired assets. Individually impaired balance and off-balance sheet items include:
- Non-risk balance sheet items,
- Exposure to clients where there is unbiased evidence of impairment for at least one financial asset and the total amount of impairment is greater for the client than it would be in the case of group impairment.

Total exposures which are not individually impaired are classified into groups on the basis of the type of financial asset and the client's risk category. The level of impairment in group impairment therefore depends on the type of financial asset and risk category of the client.

The estimate of losses for group impairment is based on a three-year average of estimated losses from financial assets in individual groups.

If during the individual assessment of financial assets impartial evidence of impairment exists, the recoverable amount of the financial asset must be estimated. Impairment shall be measured for each financial asset that is individually significant. Impairment of financial assets that are not individually significant may be measured collectively.

In the calculation of losses from credit risk of an individually significant financial asset, prime and adequate security are taken into account as well as other collateral which fully meets the conditions stipulated under Point 9 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks.

If financial assets are assessed individually but impairment is not necessary and consequently not recognised, these assets are subject to group assessment in the full amount.

b) Impairment of factored receivables

Impairments for financial assets arising from factoring (factored receivables, bills of exchange, supplier factoring receivables – hereinafter: factoring receivables) are created whenever it is assessed that it will not be possible to realise certain receivables in accordance with contractual provisions and that losses will be incurred.

Factoring receivables are part of individual assessment. When creating impairments of individually significant receivables, the estimated recoverable amount of the receivable is taken into account.

5.2.8. Short-term financial liabilities

Tangible fixed assets include real estate, equipment, and small tools.

Upon their initial recognition, tangible fixed assets are valued at purchase cost. This consists of the purchase price, import duties and non-refundable purchase taxes as well as directly attributable costs of bringing the asset to the condition necessary for the intended use. Subsequent costs incurred in connection with a component of property, plant and equipment may be disclosed as maintenance costs or an increase in the purchase cost of the asset. Repairs and maintenance costs are included in the income statement during the period in which they are incurred. Subsequent costs increasing future benefits of the asset are disclosed as increase in the purchase cost of a tangible fixed asset, or as decrease of the accrued depreciation adjustment if such costs extend the useful life of the asset.

After initial recognition an item of property, plant and equipment is carried at its purchase cost less any accumulated depreciation and any accumulated impairment losses.

Land and buildings are accounted for separately, even when they are acquired together.

Depreciation of an item of property, plant and equipment begins on the first day of the following month in which the item has become available for use. Depreciation is calculated individually on a straight-line basis. Depreciation rates are determined in such a way that the value of assets is allocated to expenses over the estimated useful life. The SID Bank Group uses the following depreciation rates:

buildings	5.0%
computer equipment	50.0%
cars	12.5%
computer software	20.0%
various machines and inventory	25.0%
furniture	11.0-25.0%
small tools	25.0-100.0%

The residual value and the useful life of an asset are reviewed at least at each financial year-end and are adequately adjusted if expectations differ from previous estimates.

At the balance sheet cut-off date at the end of each financial year, it is assessed whether there are any signs of impairment of an asset. If such signs exist, the recoverable value of the asset is assessed, equalling:

- Fair value less costs of sale or
- Value in use, whichever is higher.

Tangible fixed assets are impaired, when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognised in profit or loss. If the value in use is higher than the carrying amount, the asset need not be impaired.

The carrying amount of an item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected from its future use or disposal. Any resulting profit or loss impacts the income statement.

5.2.9. Intangible assets

a) Intangible assets with a definite useful life

The item includes investments in software and property rights.

Upon their initial recognition the assets are valued at purchase cost. After initial recognition, an intangible asset is carried at its cost, i.e. its cost of purchase less any accumulated amortisation and any accumulated impairment losses.

The useful life of the intangible asset is assessed as definite. If the useful life is definite, the asset is amortised at amortisation rate which is around 20% in the SID Bank Group. Amortisation is calculated individually on a straight-line basis.

Amortisation shall cease at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

The useful life and the residual value are checked at least at the end of each financial year.

At the balance sheet cut-off at the end of each financial year it is assessed if there are any signs of impairment of an asset. If such signs exist, the recoverable value of the asset is estimated, equalling:

- Fair value less costs of sale or
- Value in use, whichever is higher.

Intangible assets are impaired, when their carrying amount exceeds their recoverable amount. The value of impairment loss is recognised in profit or loss. If the value in use is higher than the carrying amount, the asset need not be impaired.

b) Intangible assets with indefinite useful life

The item includes goodwill resulting from the purchase of the ownership interest in the company PRVI FAKTOR, Ljubljana.

At the end of each financial year, at the balance sheet cut-off date, the impairment of goodwill is tested by comparing the total carrying amount of the asset consisting of equity interest and goodwill with the recoverable value – value in use. The value in use is the present value of future cash flows calculated by using the discounted rate which reflects the required rate of return on investment. Future cash flows are expected dividends.

5.2.10. Long-term equity investments in subsidiaries

An investment in the equity of a subsidiary not included in consolidation is disclosed at cost in the consolidated financial statements.

If there is evidence that indicates the need for impairment, the recoverable value is assessed for each individual investment.

5.2.11. Other assets - reinsurance contracts

The item includes:

a) Reinsurers' share in unearned premiums (Item 5.2.15 of Accounting Policies)
b) Reinsurers' share in reserves for outstanding claims (Item 5.2.15 of Accounting Policies)
c) Reinsurers' share in reserves for bonuses and discounts (Item 5.2.15 of Accounting Policies)
d) Receivables

Receivables are recognised as an asset in the amounts arising from the relevant documents under the assumption that they will be repaid. The original receivables may later be increased or, irrespective of payment received or other settlement, also reduced by each amount backed up by contract. The fair, i.e. realisable value is checked on the balance sheet date for various types of receivables according to different methods (recourse receivables using one method and all other receivables using another method). If there is objective evidence that an impairment loss has been incurred on an item of receivables carried at amortised cost, the amount of the impairment loss is disclosed under revaluation operating expenses related to receivables; the carrying amount of the receivable is decreased through the allowance account.

The fair, i.e. realisable value of receivables is estimated on the basis of an individual assessment of solvency. Value adjustments are made individually for separate groups of receivables. Increase in the value adjustments in a current year is posted to revaluation expenses which represent part of other net operating losses/profits. Individual receivables do not represent a material amount, and therefore changes in the flat rate value adjustment are not disclosed.

Major types of receivables:

- Receivables due from policyholders arising from insurance premiums and benefits, and other receivables

Fair, i.e. realisable value of these receivables and their adjustments are assessed on the basis of individual assessment of the insurer's solvency, taking into account also the financial position of the insurer and its fulfilment of obligations arising from the insurance sector of the SID Bank Group in the previous periods. Receivables due from policyholders are not secured, and thus not taken into account in the assessment of value adjustments.

- Grant receivables

Recourse receivables are recorded as exercised upon the payment of the insurance premium in the amount when it is reasonable to expect that they will lead to cash receipts. The difference between this amount and the paid insurance premium is disclosed in the off-balance record until the closing of the recourse case. Adjustments of the value of recourse receivables are formed on the basis of individual assessment of realisable value. For the purpose of estimating value adjustments, the recourse receivables are divided into three groups based on the cause of damage that gave rise to them and are estimated (individually) within these groups according to the described criteria.

Liquidation procedures:
- In the case of bankruptcy, the estimate of realisable value of a recourse receivable can be up to 1%, based on the experience of finalised bankruptcy proceedings;
- In the case of other insolvency procedures (e.g. Administrative Receivership, Administration, Liquidation), the estimate is based on specific written information received by the insurance sector of the SID Bank Group from the debtor or the administrator,
- If there is no such information, the estimate of the realisable value may not exceed 5%.

Rehabilitation procedures:
In such procedures, the estimate is based on specific written information. If there is no such information, the estimate of the realisable value may not exceed 20%.

Payment of insurance premium due to extended non-payment:
In the case of recourse receivables that arose from the payment of insurance premium in the event of extended non-payment, the following factors are taken into account in the estimate of realisable value:
- The estimate of a recourse receivable may not exceed 50% except in the case of a final court decision and a good debtor/guarantor credit rating,
- Debtor's credit rating,

- Country of the debtor,
- Estimated recoverability of receivables submitted by the collection agency or the lawyer in charge of collection,
- Age of receivables.

Due to the provisions of the insurance contract, the recourse receivables are disclosed by individual insurers, whereby the previously determined facts for individual debtors are taken into account when estimating the value adjustment of individual receivables.

5.2.12. Financial liabilities measured at amortised cost

The item includes liabilities to banks and clients other than banks.

Upon initial recognition, liabilities are measured in the amount of received cash reduced by attributable costs. After the initial recognition, they are disclosed at amortised cost according to the effective interest rate method consisting of the initial value of the principal reduced by potential repayments and increased by accrued interest for the period and charged loan approval fees.

Expenses for fees related to the raising of loans are equally distributed over the loan repayment period. The Management Board of SID Bank believes that even distribution of expenses over the loan repayment period is a good approximation for the recognition of expenses using the effective interest rate method .

5.2.13 Provisions

Provisions represent liabilities, if the SID Bank Group has present liabilities arising from past events and it is likely that cash flows, which can be reliably measured, will be required for the settlement thereof.

Types of provisions:
- Bank provisions
- Technical provisions
- Other provisions

a) Bank provisions

Provisions are established for potential losses related to risks arising from off-balance sheet items (guarantees, approved undrawn credit facilities and credit lines) and are calculated according to the procedures stated under Item 5.2.7 - Impairments.

b) Technical provisions

- Unearned premiums

Provisions for unearned premiums are the unearned amounts of premiums written. Gross provisions for unearned premiums are calculated for each invoice separately. The calculation of unearned premiums takes into account the assessed distribution of the probability of occurrence of a loss event, which is even for the risk of non-payment due to the buyer's permanent insolvency or bankruptcy and uneven for the risk of extended non-payment (upon invoice maturity). The provisions for unearned premiums also foresee that operating costs are evenly distributed during the insurance period.

The reinsurance part of the unearned premium is formed on the basis of a quota and facultative reinsurance protection. For the part of the premium estimated (sold in December, for which the insurance sector of the SID Bank Group is already covered, but not yet reported), the unearned premium is calculated on the basis of the flat rate method in proportion to the premium written by individual levels of reinsurance classes and in view of the past statistical data; the reinsurance portions for this part of unearned premium were calculated taking into account the adequate shares of individual classes.

- Provisions for outstanding claims

Provisions for claims outstanding are formed in the amount of estimated liabilities that the insurance sector of the SID Bank Group is obliged to pay out on the basis of insurance contracts on which an insurance event arises before the end of the accounting period, irrespective of whether the insurance event has already been reported, including all the costs borne by the insurance sector of the SID Bank Group on the basis of these contracts.

Provisions for outstanding claims comprise provisions for claims incurred and reported but not yet settled and provisions for claims incurred but not yet reported. Direct appraisal costs have already been taken into account in

the statistical total assessment of provisions for outstanding claims, while the provisions for indirect assessment expenses are established separately.
Provisions for claims reported and not yet settled as at the balance sheet date are inventoried separately for each loss event on the basis of foreseen costs arising from the liquidation of such losses.

Provisions for claims incurred and not yet reported as at the balance sheet date are determined on the basis of past experience using the Chain Ladder method with adjustments and information regarding potential, reported and major losses in order to ensure safety. Gross provisions for outstanding claims are increased by internal (indirect) appraisal costs which account for 2.6% (in 2006: 2.1%) Provisions for external (direct) appraisal costs are included in gross provisions for outstanding claims, since the external (direct) appraisal costs are included in paid claims triangles.

Reinsurance provisions for outstanding claims are calculated as part of gross provisions for outstanding claims by shares arising from reinsurance contracts from individual years. Reinsurance provisions for outstanding claims are increased by internal (indirect) appraisal costs which are calculated as 78.7% (78% in 2006) of gross appraisal costs (i.e. the calculated part of reinsurance provisions in total operating expenses).

- Provisions for bonuses

Provisions for bonuses are calculated for contracts signed with those insurers which include a clause on refunding part of the premium in the case of low claims ratio or in if the insurers do not incur loss events within the deadline defined by the contract.

Provisions for bonuses are calculated independently and the calculation comprises all contracts containing the clause on the bonus; for each of the contracts, the fulfilment of contractual provisions for obtaining the right to bonuses is checked before the balance sheet date. In accordance with the provisions of the contracts, the insurance sector of the SID Bank Group took into account, when calculating provisions for bonuses, the premium written for an individual calendar year, the claims paid in individual years, reported claims and potential claims as at the balance sheet date. On the basis of these data, the insurance sector of the SID Bank Group calculated the amount of the provisions for bonuses, taking into account the fact that the part of the bonus relating to unearned premiums is included in unearned premium reserves and calculated lower provisions for bonuses accordingly.

Reinsurance part of provisions for bonuses is calculated as part of gross provisions for bonuses by shares arising from reinsurance contracts from the relevant years.

c) Other provisions

- Provisions for loyalty bonuses

These provisions were calculated on the basis of the amounts of bonuses specified by the relevant collective agreement as at 31 December 2007. The calculation takes into account the difference between the period for which the bonus was earned and the period that has yet to pass in order to meet the conditions for receiving the jubilee bonus. The calculation was based on the assumption that all beneficiaries will still the employees of the SID Bank Group when the conditions are met the payment of this bonus.

- **Provisions for retirement severance pay**

These provisions were calculated on the basis of the provisions of collective agreement, the contribution rates paid by the employers and the conditions for retirement applicable as at 31 December 2007, assuming that all current employees will meet the conditions for retirement in the companies of the SID Bank Group and that they will meet and exercise the age-related retirement condition. The calculation takes into account the difference between the period for which the severance pay was earned and the period that has yet to pass in order to meet the conditions for retirement.

SID Bank and its subsidiaries and associated companies pay social security and pension insurance contributions for their employees, which are accounted on the basis of gross salaries and recognised in the income statement under labour costs for the period.

Compensations for short-term absences (paid annual leave) are included in the costs of the period.

- Long-term accrued expenses and deferred revenue arising from reinsurance commissions

The reinsurance contract of the insurance s of the SID Bank Group defines the sliding scale of commission levels..The minimum rate is 24.5% (in case the clause on participation in an extremely poor claims ratio need not be activated). Reinsurers pay temporary commission at the rate of 33%, which shall be charged in 2008 for the year 2007 for the first time. The difference between the calculations at the two rates is temporarily deferred until the accounts are compiled, and posted under long-term provisions for deferred revenues.

5.2.14. Other liabilities

Liabilities are initially recognised at the amounts stated in the relevant documents concerning their origin, which usually prove, in the scope of operating debt, the acceptance of goods or services or the work performed or the charged costs, expenses or share in the profit or loss. Liabilities may subsequently be increased directly or may, irrespective of amounts paid or potential other settlements, also be decreased on the basis of a contract concluded to that effect with the creditors.

Liabilities arising from reinsurance transactions are settled in accordance with the reinsurance contracts, as a rule by the end of the first or second quarter after the quarter in which the statement was issued. According to the provisions of the reinsurance contract, only the balance arising from the reinsurance contract is paid so that the receivables and liabilities to individual reinsurer are mutually offset.

No interest is accrued on liabilities.

5.2.15. Reinsurance contracts and reinsurers' shares

Concluded reinsurance contracts transfer significant insurance risk to reinsurance companies and meet the conditions from the IFRS for classification among insurance contracts. Therefore they are valued, recorded and disclosed as such in the relevant statements.

The reinsurers' shares of technical provisions are calculated on the basis of the reinsurance contract and disclosed under the reinsurance assets of the cedant. In the scope of reporting, the insurance sector of the SID Bank Group (cedant) verifies if the reinsurance assets are impaired and if the impairment is confirmed, the carrying amount of reinsurance assets is reduced and loss disclosed in relation to impairment in the income statement.

The reinsurers' shares in written premiums, losses and bonuses are accounted on the basis of the reinsurance contract and recognised in the income statement in this period and in shares defined by the contracts which the gross written premiums and losses that are the subject of reinsurance refer to.

The reinsurance contract foresees inclusion of the paid recourses in reinsurance accounts. The estimated accrued recourses are recognised among the revenues in the income statement. For the needs of the principle of matching revenues and expenses, the shares of reinsurers of accrued recourses are therefore calculated in the income statement regardless of the reinsurance contract; the balance of liabilities to reinsurers arising from accrued but not yet paid recourses is recorded separately from the reinsurance statement.

The reinsurance contract contains a provision on the reinsurance commission which depends on the claims ratio. In the quarterly statements, the reinsurers pay fees accounting for 33%, and the insurance sector of the SID Bank Group recognises in revenues the lowest commission from the sliding scale (24.5%), which is in accordance with the assessed claims ratio for the current year in the provisions for outstanding claims. The difference between the commission according to reinsurance statements and the commission recognised in revenues is deferred until the first settlement (in the second year after the final year of the reinsurance contract) to the provisions for deferred revenues.

5.2.16. Capital

Capital includes share capital, capital reserves, profit reserves, revaluation surplus from financial assets, capital revaluation – treasury stock and net profit for the year.

Share capital is disclosed in nominal value and has been paid up by the shareholders.

Acquired treasury shares are in the amount of the paid purchase price debited against share capital.

According to the Insurance Act, the insurance companies that provide credit insurance are obliged to form equalisation provisions. As of 1 January 2007, the insurance companies are obliged to use the IFRS which do not allow for such provisions among the liabilities nor for changes thereto in the income statement. The insurance sector of the SID Bank Group disclosed the equalisation provisions in a separate capital component (part of profit reserves called credit risk equalisation provisions). Reserves change in the same way as the equalisation provisions used to, only that their change is not reflected in the income statement but directly in capital, while in the balance sheet they are not part of liabilities arising from insurance contracts but rather part of capital.

If the credit insurance technical result is positive, equalisation provisions are created in the amount of 75% of the former, but may not exceed 12% of the written net premium for the year.

Revaluation surplus includes revaluation in connection with available-for-sale financial assets and consolidated capital revaluation.

5.2.17. Off-balance-sheet assets

Off-balance sheet records disclose assets and liabilities for contingency reserves, investments and liabilities for the interest rate equalisation programme, issued guarantees, undrawn approved loans and credit lines, undrawn raised loans and other.

a) Contingency reserves

As stated in Paragraph 4 of Item 5.1, SID Bank has been authorised by the Republic of Slovenia to perform the activities of an export-credit agency specialised in insurance of short-term export loans against non-commercial and other non-marketable risks, insurance of investments against non-commercial risks and insurance of medium-term export loans against commercial and/or non-commercial risks.

The Republic of Slovenia provides the funds for insurance carried out by SID Bank on behalf of the state in the form of cash used for the formation of contingency reserves intended for covering liabilities to the insured which arise from insurance against medium-term commercial risks, non-commercial risks and non-marketable short-term commercial risks.

Article 4 of the ZZFMGP regulates the operations in contingency reserves and stipulates that contingency reserves are formed from paid premiums, commissions, recourses and other revenues generated by the authorised institution as the representative of the state with insurance, reinsurance, retrocession and other operations and services by which it provides coverage against non-marketable risks for participants in international trade. Contingency reserves are also formed from the assets obtained by the authorised institution from asset management and assumed risks, from the budget of the Republic of Slovenia and from other sources and assets. Contingency reserves are used for settling liabilities to the insured, payment of costs incurred in the scope of prevention and reduction of future and existing losses, for covering losses arising from these operations and the management of these assets and risks and for the payment of costs related to the provision of the services of the authorised institution on the basis of the above-mentioned Act.

On the basis of the ZZFMGP, SID signed a contract on the regulation of mutual relationships in associated with the implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions with the Ministry of Finance on 1 December 2004.

In line with the above-mentioned legal provisions and the contract with the Ministry of Finance, SID Bank discloses its operations performed on behalf of the state in the books of account separately from other operations of SID Bank. SID Bank compiles separate income statements for operations performed on behalf of and for the account of the state, which include all revenues and expenses related to these operations. A separate balance sheet is compiled for these operations. The statements are presented in APPENDIX 5.

The contract on the regulation of mutual relationships associated with the implementation of Chapter II of the Act Governing Insurance and Financing of International Business Transactions signed with the Ministry of Finance on 1 December 2004 also stipulates the fee for the provision of services under the ZZFMGP and in the contract, which is charged as of 1 January 2005. The contract is concluded for an indefinite period of time, but cannot exceed the day the authorisations are granted to the authorised institution, selected on the basis of Article 11 of the ZZFMGP.

b) Interest Rate Equalisation Programme

On the basis of the contract of interest equalisation rate (IREP) and management of IREP reserve funds, concluded with the Ministry of Finance on 24 November 2006, the IREP reserves were formed on 29 December 2006.

In line with the legal provisions and the contract with the Ministry of Finance, SID Bank discloses its operations performed on behalf of the state - interest rate equalisation programme in the books of account separately from other operations of SID Bank. SID Bank compiles separate income statements for operations performed on behalf of and for the account of the state, which include all revenues and expenses related to these operations. A separate balance sheet is compiled for these operations. The statements are presented in APPENDIX 6.

c) Other off-balance records

Assumed financial liabilities for issued guarantees, both financial and service, represent the Group's irrevocable payment liability, if a client fails to meet its liabilities to a third person.

The principal aim of assumed and irrevocable liabilities arising from approved undrawn credit facilities and credit lines is to provide assets for a client in accordance with the concluded contract.

Risks related to contingent liabilities and assumed financial liabilities are estimated on the basis of applicable provisions (IFRS and taking into account the guidelines issued by the Bank of Slovenia) and are described in detail in Chapter 5.2.7.

Contingent liabilities of the insurance sector of the SID Bank Group comprise unclaimed recourse receivables.

5.2.18. Interest income and expense

Interest income and expenses comprise interest income and expenses arising from granted or received loans, interest from available-for-sale financial assets and other interest.

In the income statement, income and expenses arising from granted and received loans and other interest are recognised in the relevant period on the basis of applicable interest.

In available-for-sale financial assets, interest income is evenly distributed over the period for which the security is held, on the basis of the calculation of amortised cost according to the effective interest rate method.

5.2.19. Commissions received and paid

Revenues from commissions comprise commissions from granted loans and guarantees. As stated in the item 5.2.6, revenues from charged commissions for approving loans are evenly distributed over the entire period of loan repayment.

Expenses for commissions comprise commissions for loans raised abroad. Expenses for commissions are also evenly distributed over the loan repayment period.

5.2.20. Other net operating profits/losses

Other net operating profits/losses include:
- Revenues from insurance premiums,
- Expenses for insurance operations,
- Other operating gains/losses.

Insurance premiums are recognised under revenues upon the issue of invoices to third parties and have already been reduced by insurance contract tax. Premiums also include an estimate of uncharged premium for assumed risks (sales carried out by the insurers in December, which were reported in January). Part of the gross unearned premiums written is transferred to the reinsurers with the aim of spreading and managing risks. The reinsurers' share of gross premiums written reduces gross premiums written.

Expenses for insurance operations include settled claims, recourse receivables and bonuses. Settled claims include insurance premiums paid to the insured, which arise from the occurrence of loss event. Amounts of net claims settled are reduced by enforced recourse receivables. Settled bonuses represent the payment of bonuses to the insured in the current year.

All other items that cannot be recorded among the stated revenues or expenses are included among other operating profits/losses.

5.2.21. Impairment of loans measured at amortised cost

Losses arising from impairment of loans are recognised if there is objective evidence that the client will not be able to repay the total amount of an approved loan and accrued interest. The amount of loss is the difference between the carrying amount of the loan and its recoverable value which consists of expected future payments, including the amounts of payments from guarantees and collateral, discounted by the interest rate applicable upon the raising of the loan.

The basis for the impairment of loans is the borrower's creditworthiness and performance, taking into account the value of received third-party collateral and guarantees.

5.2.22. Taxation

Corporate income tax is calculated on the basis of an established tax base determined in accordance with the Corporate Income Tax Act. The tax base for 2007 was 23%.

Deferred corporate income taxes are disclosed using the method of a liability on the balance sheet for the temporary differences arising between the tax values of assets and liabilities and their book values in the financial statements. Deferred corporate income taxes are determined based on the tax rates that are applicable as at the balance sheet date and that are expected to be in use when the deferred tax asset is realised or the deferred tax liability is settled. The Corporate Income Tax Act determines a falling rate, namely: 22% for the year 2008, 21% for the year 2009 and 20% onwards. Deferred taxes occur in relation to provisions for commissions and jubilee bonuses and available-for-sale financial assets.

Tax effects are accounted for in the same way as the transaction itself, namely, they are disclosed in the income statement or in capital. The carrying amount of deferred receivables and liabilities is reviewed at each balance sheet date.

Deferred corporate income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences.

5.2.23. Signifcant amounts

Significant items in the balance sheet are those which exceed 1% of total assets on the balance sheet date, i.e. EUR 14,370 thousand as at 31 December 2007. Significant items in the income statement are those which exceed 0.5% of total assets on the balance sheet date, i.e. EUR 7,185 thousand in the income statement for 2007.

5.2.24. Cash Flow Statement

The cash flow statement is compiled using the indirect method from the figures in the consolidated balance sheet as at 31 December 2007 and the consolidated balance sheet as at 31 December 2006, from the figures in the consolidated income statement for 2007 and from additional figures required for adjusting inflows and outflows and for the appropriate itemisation of significant items. The cash flow statement is presented in the form issued by the Bank of Slovenia which has been aligned with IAS 7.

5.2.25. Statement of Changes in Equity

The statement of changes in equity discloses the changes in individual capital components during the accounting period. The form is based on the requirements of IAS 1.96. The change of each equity component, as disclosed in the balance sheet, is presented in the form.

5.2.26. Adjustments to new or amended standards applicable as of 1 January 2007 and impact of un-enforced and un-applied standards and notes

IFRS 7 Financial instruments: disclosures entered into force in 2007 and applies to annual reporting periods starting on 1 January 2007 and the resulting revised IAS 1 Presentation of Financial Statements. Both were taken into account by SID Bank when preparing the statements for 2007.

The adoption of IFRS 7 and revised IAS 1 mean that the SID Bank Group has to disclose more details, as stipulated by these accounting standards in relation to financial instruments of SID Bank.

Four interpretations issued by the International Financial Reporting Interpretations Committee apply to the period under scrutiny, namely:

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies,
- IFRIC 8 Scope of IFRS 2,
- IFRIC 9 Reassessment of Embedded Derivatives, and
- IFRIC 10 Interim Financial Reporting and Impairments.

The adoption of these interpretations did not result in a change of accounting policies applied by the SID Bank group.

On the date these financial statements were approved, the following interpretations were being prepared for issue but not yet in force:

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions (effective from 1 March 2007)
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008), and
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective from 1 January 2008).

The Management Board believes that the notes to the above standards will have no material impact on the future financial statements.

5.3. Reclassification of items in financial statements for the year 2006

The SID Bank Group made some reclassifications of data for 2006. Management assesses that these changes are insignificant, and thus did not adjust the opening figures for the year 2006 but applied them in 2007. The following reclassifications were made as at 31 December 2006:

a) the income statement:

- Revenues from insurance premiums, expenses for insurance operations would be transferred from the separate item net insurance operations to the item other net gains/losses due to the alignment of items of the income statement.

b) balance sheet:

- Equalisation provisions from liabilities to other reserves (capital) due to the provisions of the Insurance Act, which would result in the changes in the items of equity and other liabilities. This would result in changes to the liabilities and receivables for deferred taxes and in net profit. Due to the effect of equalisation provisions which were calculated according to the new and the old regulations with simultaneous transition to the IFRS, the SID Bank Group would record a reduction in receivables for deferred taxes which would be reflected as a change in profit or loss.

- Changes in credit and financial liabilities measured at amortised cost would involve a different manner of recording recourse factoring operations in the SID Bank Group.

Recourse factoring receivables were disclosed in 100% (nominal) amount of receivables until 2007, even though the client had the right to enforce the recourse up to the financed amount, i.e. 80% to 90% of the receivable. The difference was recorded as a liability to the cedant. Pursuant to the amended accounting policy, the recourse factoring is posted in the amount of financing. Thus the change in recourse receivables (loans) would total EUR 4,128 thousand while the financial liabilities would change by EUR 5,860 thousand.

Overview of reclassifications in the balance sheet

	Audited Annual Report for 2006	After reclassification in the Annual Report for 2006
Credit	860,414	856,286
Receivables for deferred taxes	683	1,819
Other assets	14,729	14,544
Difference		3,177
Financial liabilities measured at amortised cost	786,533	780,673
Deferred tax liabilities	3,719	2,558
Other liabilities	5,604	7,129
profit reserves	50,516	52,104
Net profit	3,722	4,453
Difference		3,177
Total assets	937,331	934,154

5.4. Notes to consolidated balance sheet

(In EUR thousand)

5.4.1. Financial assets held for trading

	31.12.2007	31.12.2006
Derivative financial instruments held for trading under forward contracts	56	32
Derivative financial instruments held for trading under swap contracts	73	125
Total	129	157

The item includes the valuation of derivative financial instruments, an interest swap in the amount of EUR 5,000 thousand and two currency forwards in the amount of USD 2,000 thousand.

5.4.2. Available-for-sale financial assets

	31.12.2007	31.12.2006
Short-term debt securities	7,410	11,865
Long-term debt securities	55,624	42,755
Total	63,034	54,620

c) Securities by type of issuer

	31.12.2007	31.12.2006
Government securities	15,907	28,013
- Republic of Slovenia bonds	14,914	16,660
- Republic of Slovenia treasury bills	993	11,353
Bonds of foreign countries	744	808
- Central government bonds	696	753
- Local government bonds	48	55
Bank bonds	16,297	17,792
- Domestic banks	3,635	4,556
- Domestic banks- subordinate bonds	4,039	4,153
- Foreign banks	8,623	9,083
Bonds of other foreign financial organisations	4,685	2,085
Bonds of non-financial companies	24,564	5,142
- Domestic non-financial companies	11,508	1,523
- Foreign non-financial companies	13,056	3,619
Capital investment	837	780
Total	63,034	54,620

The disclosed balance of securities includes accrued interest calculated at effective interest rate in the amount of EUR 695 thousand.

d) Securities by interest accrual method

	31.12.2007	31.12.2006
At fixed interest rate	45,962	43,343
At variable interest rate	16,236	10,496
Non-interest	836	781
Total	63,034	54,620

e) Breakdown of securities by issuer rating

Rating	Fair value as at 31 December 2007	Structure in %
Rating according to S&P		
AAA	2,344	3.7
AA+	2,395	3.8
AA	18,887	30.0
AA-	612	1.0
A+	1,515	2.4
A	4,682	7.4
A -	7,282	11.6
BBB	5,426	8.6
BBB-	1,131	1.8
BBB	3,752	5.9
No rating	15,008	23.8
Total	63,034	100.0

f) Changes in debt securities

	2007	2006
Balance as at 1 January	54,620	45,031
Purchases, transfers	45,300	54,933
Foreign exchange differences	(48)	(8)
Sale, realisation	(36,684)	(45,097)
Change in fair value	(154)	(239)
Balance as at 31 December	63,034	54,620

Debt securities include EUR 4,039 thousand in subordinated securities, namely BDM11, NKBMFL09, NKBMFL49 and NLB13 bonds.

Of the total portfolio as at 31 December 2007, DRK1, BDM11 and TALLIN bonds in the amount of EUR 10,796 thousand and the mutual fund MP Plus in the amount of EUR 266 thousand were not listed on the stock exchange.

Exposure to interest rate risk is presented in items 5.6.3. and 5.5.1, whereas exposure to currency risks is detailed in item 5.6.2.

5.4.3. Credit

	31.12.2007	31.12.2006
Loans to banks	922,927	603,855
Loans to clients other than banks	423,099	256,559
Total	1,346,026	860,414

a) Loans to banks

	31.12.2007	31.12.2006
Short-term loans	72,159	44,005
Long-term loans	817,043	502,069
Special purpose deposits	28,372	53,780
Sight deposits	5,353	4,001
Total	922,927	603,855

Loans and special-purpose deposits were granted to Slovene banks for financing and refinancing of exports and other international commercial operations in line with the business policy of SID Bank for a specific financial year.

The rate of refinancing of export bank credits in domestic currency was typically between 50% and 90% of the value of the export credit. The rate of financing export credits of banks in foreign currency and the provision of funds to finance banks' export credits in foreign currency is as a rule up to 100%.

SID Bank directly finances international commercial operations, usually by providing funds equalling up to 100% of the operation value or, according to OECD rules, up to 85% of the export operation.

a1) Short-term loans of banks

	31.12.2007	31.12.2006
Loans in EUR	71,390	42,966
Loans with currency clause	812	0
Credits in foreign currency	0	1,039
Value adjustments of loans	(43)	0
Total	72,159	44,005

a2) Long-term loans to banks

	31.12.2007	31.12.2006
Loans in EUR	797,588	485,377
Credits in foreign currency	20,733	16,751
Value adjustments of loans	(1,278)	(59)
Total	817,043	502,069

Long-term foreign-currency loans amounted to USD 30,462 thousand.

a3) Special-purpose deposits to banks

	31.12.2007	31.12.2006
Short-term in EUR	24,479	50,697
Short-term in foreign currency	648	0
Long-term in EUR	3,245	3,083
Total	28,372	53,780

Short-term foreign-currency loans amounted to USD 952 thousand.

a4) Changes in loans

	2007	2006
Balance as at 1 January	603,855	457,488
New loans and deposits	2,066,664	3,218,914
Repayments	(1,747,592)	(3,072,547)
Balance as at 31 December	922,927	603,855

a5) Changes in adjustments (impairment)

	2007	2006
Balance as at 1 January	59	334
Value adjustments of loans	1,934	496
Elimination of value adjustments of loans	(672)	(771)
Balance as at 31 December	1,321	59

a6) Interest rates

SID Bank's interest rates on refinanced loans in domestic currency were treated on a case-by-case basis, depending on the loan maturity. The interest rates on foreign currency loans to banks consisted of 3 or 6-month EURIBOR/LIBOR plus a margin of between 0.25% p.a. and 1.4% p.a.

The PRVI FAKTOR Group's interest rate on domestic currency deposits was 3.3%, while its interest rate on foreign currency deposits was 3.4%.

Exposure to interest rate risk is presented in items 5.6.3. and 5.5.1, whereas exposure to currency risks is detailed in item 5.6.2.

b) Loans to clients other than banks

	31.12.2007	31.12.2006
Short-term loans	77,224	44,455
Long-term loans	220,357	117,928
Claims arising from guarantees	318	1,451
Factoring	125,200	92,725
Total	423,099	256,559

b1) Short-term loans to clients other than banks

	31.12.2007	31.12.2006
Loans to non-financial companies in foreign currency	16,887	782
Domestic-currency loans to non-financial companies	25,952	28,285
Domestic-currency loans to financial organisations	5,307	0
Foreign-currency loans to financial organisations	0	328
Loans to foreign entities in domestic currency	30,775	17,261
Value adjustments of short-term loans	(1,697)	(2,201)
Total	77,224	44,455

Short-term loans to non-financial companies in foreign currency amounted to USD 1,027 thousand plus EUR 16 thousand in other currencies.

b2) Long-term loans to clients other than banks

	31.12.2007	31.21.2006
Loans to non-financial organisations in foreign currency	1,100	1,227
Loans to non-financial organisations in domestic currency	152,076	92,131
Domestic-currency loans to financial organisations	33,773	12,109
a) Loans to foreign entities in foreign currency	319	711
Loans to foreign entities in domestic currency	43,770	19,530
Value adjustments of long-term loans	(10,681)	(7,780)
Total	220,357	117,928

Loans to non-financial companies in foreign currency amounted to USD 1,616 thousand and those to foreign entities in foreign currency USD 468 thousand.

b3) Claims arising from guarantees

	31.12.2007	31.12.2006
Claims arising from realised guarantees	2,335	3,821
Value adjustments of realised guarantees	(2,017)	(2,370)
Total	318	1,451

Value adjustments accounting for 86% were formed for claims arising from realised guarantees.

b4) Factoring

	31.12.2007	31.12.2006
Domestic factoring	109,288	77,021
Export factoring	13,254	8,589
Import factoring	5,089	531
Domestic factoring - loan	0	6,516
Export factoring - loan	0	69
Doubtful and disputed short-term trade receivables - factoring	0	2,591
Value adjustments of short-term receivables - factoring	(2,431)	(2,592)
Total	125,200	92,725

b5) Changes in loans to clients other than banks

	2007	2006
Balance as at 1 January	256,559	179,548
New loans and deposits	643,706	355,468
Repayments	(477,166)	(278,457)
Balance as at 31 December	423,099	256,559

b6) Changes in adjustments (impairment)

	2007	2006
Balance as at 1 January	14,943	10,701
Value adjustments of loans (impairments)	16,526	11,046
Elimination of value adjustments of loans (elimination of impairments)	(14,643)	(6,804)
Balance as at 31 December	16,826	14,943

b7) Interest rates

Interest rates on loans to clients other than banks in the direct financing of legal entities range from 3 or 6-month EURIBOR/LIBOR + 0.50% p.a. to 6-month EURIBOR/LIBOR + 1.85% p.a.

For factoring operations, the interest rate spread is significant, due to the fact that the company operates in various markets. Slovenian clients thus enjoy the most favourable terms, while, on average, the terms applicable to the clients in Serbia are the least favourable. When approving financing based on a fixed interest rate, the lowest annual interest rate stood at 5.75% while the highest amounted to 13%. For financing based on a reference interest rate, the range was between 3-month EURIBOR + 1.35% and 1-month EURIBOR + 9%.

Exposure to interest rate risk is presented in items 5.6.3. and 5.5.1, whereas exposure to currency risks is detailed in item 5.6.2.

5.4.4. Property, plant and equipment

Changes in property, plant and equipment in 2007

	Real estate	**Equipment in acquisition**	**Other equipment**	**Total**
Purchase value				
Balance at 1 January 2007	6,404	19	1,942	8,365
Transfer	0	0	0	0
Increase	184	0	511	695
Decrease	0	0	(213)	(213)
balance as at 31 December 2007	6,588	19	2,240	8,847
Value adjustments				
Balance at 01 January 2007	(1,545)	0	(1,271)	(2,816)
Transfer	0	0	0	0
Depreciation and amortisation	(307)	0	(263)	(570)
Decrease	0	0	108	108
balance as at 31 December 2007	(1,852)	0	(1,426)	(3,278)
Net book value as at 01 January 2007	4,859	19	671	5,549
Net book value as at 31 January 2007	4,736	19	814	5,569

Change in tangible fixed assets in 2006

	Real estate	**Equipment in acquisition**	**Other equipment**	**Total**
Purchase value				
Balance at 01 January 2006	3,478	5	1,685	5,168
Transfer	203	(201)	196	198
Increase	2,723	215	144	3,082
Decrease	0	0	(83)	(83)
balance as at 31 December 2006	6,404	19	1,942	8,365
Value adjustments				
Balance at 01 January 2006	(1,381)	0	(1,056)	(2,437)
Transfer	0	0	(59)	(59)
Depreciation and amortisation	(164)	0	(198)	(362)
Increase	0	0	(33)	(33)
Decrease	0	0	75	75
balance as at 31 December 2006	(1,545)	0	(1,271)	(2,816)
Net book value as at 01 January 2006	2,097	5	629	2,731
Net book value as at 31 December 2006	4,859	19	671	5,549

The increase in property, plant and equipment is for the most part accounted for by the renovation of the 4th and 5th floors of the office building and the purchase of equipment for these premises. SID Bank purchased these premises in 2006.

As at 31 December 2007, the amount of liabilities to suppliers for tangible fixed assets stood at EUR 5 thousand.

5.4.5. Intangible assets

	31.12.2007	15.12.2006
Property rights	749	660
Goodwill	488	488
Total	1,237	1,148

a) Changes in property rights in 2007

	Under construction	In use	Total
Purchase value			
Balance at 01 January 2007	62	846	908
Transfer	(258)	258	0
Increase	248	116	364
Decrease	0	(181)	(181)
balance as at 31 December 2007	52	1,039	1,091
Value adjustments			
Balance at 01 January 2007	0	(248)	(248)
Depreciation and amortisation	0	(174)	(174)
Decrease	0	80	80
balance as at 31 December 2007	0	(342)	(342)
Net book value as at 01 January 2007	62	598	660
Net book value as at 31 December 2007	52	697	749

Changes in property rights in 2006

	Under construction	In use	Total
Purchase value			
Balance at 01 January 2006	520	336	856
Transfer	(700)	478	(222)
Increase	362	31	393
Decrease	(120)	0	(120)
balance as at 31 December 2006	62	845	907
Value adjustments			
Balance at 01 January 2006	0	(126)	(126)
Depreciation and amortisation	0	(110)	(110)
Decrease	0	(11)	(11)
balance as at 31 December 2006	0	(247)	(247)
Net book value as at 01 January 2006	520	210	730
Net book value as at 31 December 2006	62	598	660

The item includes software. New software was purchased in 2007 (for managing securities, a programme for executing SWIFT payment transactions, LN bases) and upgrades for the existing programmes.

b) Goodwill

Goodwill arises from the purchase of an equity interest in PRVI FAKTOR, Ljubljana. Pursuant to the impairment test performed on the balance as at 31 December 2007, it was determined that there was no need for the impairment of goodwill.

5.4.6. Long-term investments in equity of subsidiaries, associates and joint ventures

	31.12.2007	31.12.2006
Investment in PRO KOLEKT	419	29
Total	419	29

In 2007, SID Bank increased the capital of PRO KOLEKT in the amount of EUR 390 thousand.

Changes in long-term investments

	2007	2006
Balance as at 1 January	29	9
Increase	390	20
Balance as at 31 December	419	29

5.4.7. Corporate income tax assets

	31.12.2007	31.12.2006
Receivables for prepaid corporate income tax	1,491	548
Deferred tax assets	778	135
Total	2,269	683

Deferred tax assets

	31.12.2007	31.12.2006
Receivables	62	73
Reinsurance commissions	220	0
Provisions for severance pay and jubilee bonuses	38	35
b) Financial investments, RZP	114	(4)
Lawsuits	0	31
Impairment of intangible assets	10	0
Tax losses	267	0
Deferred costs and revenues	67	0
Total	778	135

5.4.8. Other assets

	31.12.2007	31.12.2006
Reinsurance contracts	17,570	14,252
Others	482	477
Total	18,052	14,729

a) Reinsurance contracts

	31.12.2007	31.12.2006
Reinsurers' share of unearned premiums	1,126	794
Reinsurers' share of claims provisions	11,546	9,540
Reinsurers' share of provisions for bonuses and discounts	1,184	843
Receivables from premiums	1,148	1,030
Value adjustments of for receivables from premiums	(25)	(47)
Grant receivables	1,434	919
Receivables from credit ratings	95	98
Receivables arising from reinsurance	11	0
Other accrued revenues and deferred expenses	1,051	1,075
Total	17,570	14,252

b) Others

	31.12.2007	31.12.2006
Inventories	3	23
Advances to suppliers for operating assets	35	3
Trade receivables	3	33
Fees and commissions receivables	14	21
Other receivables	122	156
Deferred costs and accrued revenues	121	59
Other short-term deferred costs	45	45
Other deferrals and accruals	139	137
Total	482	477

5.4.9. Financial liabilities held for trading

	31.12.2007	31.12.2006
Derivative financial instruments held for trading, forward contract valuation	24	0
Derivative financial instruments held for trading, swap contract valuation	162	163
Total	186	163

5.4.10. Financial liabilities measured at amortised cost

	31.12.2007	31.12.2006
Deposits of banks	22,637	0
Deposits of clients other than banks	32,878	43
Borrowing from banks	1,211,554	780,597
Loans of clients other than banks	0	5,893
Debt securities	7,898	0
Total	1,274,967	786,533

a) Deposits of banks

	31.12.2007	31.12.2006
Deposits in EUR	12,285	0
Deposits in foreign currency	10,352	0
Total	22,637	0

Foreign-currency deposits amounted to USD 15,208 thousand.

b) Deposits of clients other than banks

	31.12.2007	31.12.2006
Deposits in EUR	32.878	43
Deposits in foreign currency	0	0
Total	32.878	43

c) Loans of banks

	31.12.2007	31.12.2006
Short-term in EUR	127,111	0
Short-term in foreign currency	2,778	0
Long-term in EUR	1,070,685	694,352
Long-term in foreign currency	10,980	86,245
Total	1,211,554	780,597

Long-term foreign-currency loans amounted to USD 16,131 thousand.

d) Loans of clients other than banks

	31.12.2007	31.12.2006
Short-term in EUR	0	0
Long-term in EUR	0	0
Long-term in foreign currency	0	5,893
Total	0	5,893

e) Debt securities

	31.12.2007	31.12.2006
Certificates of deposit	7,898	0
Total	7,898	0

Long-term liabilities to foreign banks relate to liabilities from loans raised in the international syndicated loans market between 2000 and 2005, and bilateral credit lines gained in co-operation with KfW- Kredit fuer

Wiederaufbau and the Council of Europe Development Bank, secured by the guarantee of the Republic of Slovenia.

f) Interest rates

Interest rates of SID Bank on long-term loans from foreign banks range between 3 or 6-month EURIBOR/LIBOR + 0.05% p.a. and 3 or 6-month EURIBOR/LIBOR + 0.225% p.a.

Interest rates of the PRVI FAKTOR Group on loans denominated in a foreign currency range between 1, 3 or 6-month EURIBOR/LIBOR + 0.5 % p.a. and 1, 3 or 6-month EURIBOR/LIBOR + 2.25 % p.a.

5.4.11. Provisions

	31.12.2007	31.12.2006
Bank provisions	778	1,623
Insurance technical reserves	23,803	18,322
Other provisions	2,375	1,665
Total	26,956	21,610

a) Bank provisions

The item includes special provisions for covering contingent losses arising from issued guarantees and undrawn credit facilities:

	31.12.2007	31.12.2006
Provisions for guarantees	718	932
Provisions for undrawn credit facilities	60	691
Total	778	1.623

Changes

	2007	2006
Balance as at 1 January	1,623	2,857
Provisions formed	3,769	4,030
Foreign exchange differences	(9)	(24)
Provisions released	(4,605)	(5,240)
Balance as at 31 December	778	1,623

b) Technical reserves

	31.12.2007	31.12.2006
Gross unearned premiums	1,853	1,199
Gross provisions for outstanding claims	19,928	15,745
Gross provisions for bonuses and discounts	2,022	1,378
Total	23,803	18,322

Gross technical reserves are shown, including reinsurers' share.

Gross provisions for outstanding claims

	31.12.2007	31.12.2006
Provisions for incurred and reported loss events	3,023	2,506
Provisions for incurred and unreported loss events	16,400	12,915
Provisions for appraisal costs	505	324
Total	19,928	15,745

Changes

	2007	2006
Balance as at 1 January	18,322	13,600
Changes	5,481	4,722
Balance as at 31 December	23,803	18,322

c) Other provisions

	31.12.2007	31.12.2006
Long-term provisions for pensions and similar liabilities to employees	245	222
Deferred income from reinsurance commissions	2,130	1,443
Total	2,375	1,665

c1) Long-term provisions for pensions and similar liabilities to employees

	31.12.2007	31.12.2006
Long-term provisions for loyalty bonuses	10	16
Long-term provisions for severance pay upon retirement	235	154
Long-term provisions for unpaid leave	0	52
Total	245	222

The amounts of bonuses were discounted to the present value of future disbursements, taking into account the time schedule of the payment of loyalty bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. The full interest rate calculated in such way was taken into account (3.6%). The following input parameters were used: loyalty bonuses for 10 years EUR 354.46, EUR 531.69 for 20 years and EUR 708.92 for 30 years.

The amounts of severance pay were discounted to the present value of future disbursements, taking into account the time schedule of the payment of bonuses and the average interest rate of government debt securities published by the Ministry of Finance for the purpose of calculating the returns of voluntary supplementary pension insurance. The full interest rate calculated in such way was taken into account (3.6%). The following input parameters were used: amount based on the Employment Relationship Act (two average monthly salaries of the employee for the past three years or two average monthly salaries in the Republic of Slovenia for the past three months, whichever is more favourable for the employee), increased by the achieved growth in salaries in the banking sector in the last five years, a length of service upon retirement for men of 40 years and for women 38 years.

c2) Changes in long-term provisions for pensions and similar liabilities to employees:

	2007	2006
Balance as at 1 January	222	187
Provisions formed	39	45
Provisions released and used	(16)	(10)
Balance as at 31 December	245	222

c3) Changes in deferred revenues from reinsurance commissions

	2007	2006
Balance as at 1 January	1,443	855
Provisions formed	687	588
Balance as at 31 December	2,130	1,443

5.4.12. Corporate income tax liabilities

	31.12.2007	1.1.2007
Liabilities for tax on profit	2,400	2,521
Deferred tax liabilities	27	1,198
Total	2,427	3,719

Overview of deferred tax liabilities

	31.12.2007	31.12.2006
Equalisation provisions	0	1.387
Receivables	0	(28)
Reinsurance commissions	0	(220)
Provisions for pensions and loyalty bonuses	0	(11)
Revaluation surplus for securities	27	70
Total	27	1.198

5.4.13. Other liabilities

	31.12.2007	31.12.2006
Net salaries and net wage compensation to employees	448	423
Suppliers	2,090	3,019
Reinsurance liabilities	7	87
Other liabilities from insurance operations	14	15
Other liabilities	84	393
Accrued costs and deferred income:	2,265	1,667
- Accrued costs	*561*	*140*
- Accrued reinsurance statement	*654*	*913*
- Accrued costs of reinsurers for recourses	*1,002*	*592*
- Short-term deferred revenues	*48*	*22*
Total	4,908	5,604

5.4.14. Share capital

Subscribed capital in the amount of EUR 89,600 thousand is divided into 932,354 ordinary registered no-par value shares and has been paid up in full. The number of shares in 2007 remained the same.

Based on the resolution of the General Meeting, SID Bank increased its share capital in 2007 from existing components of equity; the increase was entered in the Companies Register on 30 August 2007.

Taking into account net profit of EUR 6,736 thousand and the number of shares, i.e. 913,909, earnings per share as at 31 December 2007 stood at EUR 7.37.

Taking into account net profit of EUR 6,910 thousand and the number of shares, i.e. 913,909, earnings per share as at 31 December 2006 stood at EUR 7.56.

5.4.15. Revaluation surplus

	31.12.2007	31.12.2006
Revaluation surplus from available-for-sale financial assets	(332)	249
Consolidated capital adjustment	(64)	2
Total	(396)	251

5.4.16. Reserves from profit (including profit retained)

	31.12.2007	31.12.2006
Legal reserves	8,217	8,127
Share repurchase programme	1,324	1,324
Statutory reserves	9,238	7,215
Other profit reserves	2,257	7,952
Reserves for equalisation of credit insurance	9,511	0
Retained earnings	1,288	0
Retained profit from transition to IFRS	0	25,898
Total	31,835	50,516

If equalisation provisions were treated as part of technical provisions, they would be higher by EUR 9,511 thousand while profit reserves would be reduced by the same amount. Expenses for the formation of provisions would be by EUR 478 thousand lower (due to reduced equalisation provisions). In the income statement, tax expenses would be higher by EUR 201 thousand, thus this amount would not be disclosed in the statement of changes in equity as the tax effect of revenues/expenses recognised directly in capital. In the income statement, net profit/loss would be higher by EUR 277 thousand due to the above-mentioned differences, thus this amount would not be disclosed in the statement of changes in equity as net effect of revenues/expenses after tax recognised directly in capital. Net profit/loss prior to the establishment of legal and statutory reserves would be the same in both cases, totalling EUR 1,803 thousand.

5.4.17. Off-balance-sheet items

	31.12.2007	31.12.2006
Investments from contingency reserves	107,278	102,704
Liabilities for contingency reserves	(107,278)	(102,704)
Investments from the interest rate equalisation programme (IREP)	5,395	1,461
Liabilities from the interest rate equalisation programme	(5,395)	(1,461)
Debtors under guarantees	52,481	35,998
Financial liabilities assumed	34,564	41,495
Debtors under assumed financial liabilities	92,500	179,500
Debtors under derivatives	7,779	6,551
Other financial liabilities assumed	6,350	148
Pledged assets	0	0
Unclaimed recourse receivables	8,676	6,653
Guarantees granted	2,947	1,730
Total	205,297	272,075

a) Investments from contingency reserves

	31.12.2007	31.12.2006
Loans to banks	62,803	68,425
Loans to clients other than banks	2,520	2,686
Securities	38,278	27,891
Other assets	3,677	3,702
Total	107,278	102,704

b) Liabilities for contingency reserves

	31.12.2007	31.12.2006
Safety margin	(102,965)	(97,848)
Revaluation surplus from available-for-sale financial assets	330	124
Accrued expenses and deferred revenues	(4,643)	(4,980)
Total	(107,278)	(102,704)

Changes in contingency reserves

	2007	2006
Balance as at 1 January	97,848	92,455
Surplus of income over expenses	5,117	5,393
Balance as at 31 December	102,965	97,848

Contingency reserves in 2007 rose by EUR 5,117 thousand, which equalled the surplus of income over operating expenses in the name of and on behalf of the state.

c) Investments from the interest rate equalisation programme (IREP)

	31.12.2007	31.12.2006
Credit	1,476	1,461
Securities	3,919	0
Total	5,395	1,461

d) Liabilities from the interest rate equalisation programme

	31.12.2007	31.12.2006
Financial liabilities measured at amortised cost	(5,395)	(1,461)
Total	(5,395)	(1,461)

e) Debtors under guarantees

The breakdown of guarantees by maturity

	31.12.2007	31.12.2006
Short-term	15,272	19,925
Long-term	37,209	16,073
Total	52,481	35,998

The breakdown of guarantees by type is as follows:

	31.12.2007	31.12.2006
Payment	4,991	3,742
Service	16,075	16,923
Assumed risk	17,300	0
Customs	2,492	4,419
Waste removal guarantees	11,623	10,914
Total	52,481	35,998

The breakdown of guarantees by currency

	31.12.2007	31.12.2006
EUR	49,509	33,176
USD	636	169
HRK	2,314	2,628
EEA	22	25
Total	52,481	35,998

f) Financial liabilities assumed

	31.12.2007	31.12.2006
Approved undrawn loans	34,564	41,495
Total	34,564	41,495

g) Debtors under assumed financial liabilities

	31.12.2007	31.12.2006
Raised undrawn loans	92,500	179,500
Total	92,500	179,500

This item comprises approved undrawn loans raised abroad, guaranteed of the Republic of Slovenia in the amount of EUR 72,500 thousand and a credit line in the amount of EUR 20,000 thousand.

h) Debtors under derivatives

	31.12.2007	31.12.2006
Forward contracts	2,779	1,551
Interest swap	5,000	5,000
Total	7,779	6,551

The interest swap was concluded in November 2005 with Sumitomo - SMBC to secure the return on the portfolio of Republic of Slovenia bonds with a fixed interest rate. The principal amounts to EUR 5,000 thousand and the transaction matures on 17 April 2008.

i) Other financial liabilities assumed

	31.12.2007	31.12.2006
Other financial liabilities assumed	6,350	148
Total	6,350	148

j) Unclaimed recourse receivables

	31.12.2007	31.12.2006
Unclaimed recourse receivables	8,676	6,653
Total	8,676	6,653

k) Guarantees given

	31.12.2007	31.12.2006
Compensation received	15	38
Guarantees given for factoring operations	2,932	1,692
Total	2,947	1,730

5.5. Notes to the consolidated income statement

(In EUR thousand)

5.5.1. Net interest

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Interest from financial assets held for trading	274	(163)	218	(245)
Interest from available-for-sale assets	2,268	0	1,383	0
Interest from granted loans and deposits made	55,090	(44,451)	30,972	(21,897)
Interest from other financial assets	3	0	4	(1)
Total	57,635	(44,614)	32,577	(22,143)
Net interest	13,021		10,434	

5.5.2. Net fees and commissions

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Fees and commissions on banking services	0	(89)	0	(24)
Commissions for payment transactions	0	(283)	0	(33)
Fees and commissions from loans	3,361	(194)	2,068	(60)
Fees and commissions for guarantee transactions	207	(377)	194	0
Fees and commissions for credit rating information	573	(629)	639	(427)
Fees and commissions for securities	0	(9)	0	(4)
Other fees and commissions	27	(2)	0	0
Total	4,168	(1,583)	2,901	(548)
Net fees and commissions	2,585		2,353	

5.5.3. Profits/losses from financial assets and liabilities not measured at fair value through profit or loss

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Available-for-sale financial assets	7	(85)	116	(68)
Total	7	(85)	116	(68)
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss		(78)	48	

5.5.4. Net gains/losses from financial assets and liabilities held for trading

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Derivative financial instruments under forward transactions	128	(55)	52	0
Derivative financial instruments under swap transactions	0	(53)	78	0
Total	128	(108)	130	0
Net profits/losses from financial assets and liabilities held for trading	20		130	

5.5.5. Net foreign exchange gains/losses

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Foreign exchange differences	9,109	(7,622)	4,666	(5,156)
Total	9,109	(7,622)	4,666	(5,156)
Net foreign exchange gains/losses	1,487			(490)

5.5.6. Net profits/losses from derecognition of assets, excluding non-current assets

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Derecognition of property, plant and equipment	0	0	24	(30)
Total	0	0	24	(30)
Net profits/losses from derecognition of assets, excluding non-current assets		0		(6)

5.5.7. Other net operating profits/losses

	2007	2006
Revenues from insurance premiums	8,060	5,846
Expenses for insurance operations	(1,267)	(947)
Others	2,586	2,361
Total	9,379	7,260

a) Revenues from insurance premiums

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Gross insurance premiums written	13,766	0	11,184	0
Reinsurance commissions	2,649	0	1,676	0
Reinsurance premiums written	0	(8,355)	0	(7,014)
Total	16,415	(8,355)	12,860	(7,014)
Net insurance premiums written	8,060		5,846	

b) Expenses for insurance operations

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Gross claims settled	0	(4,185)	0	(4,693)
Settled bonuses	0	(405)	0	(167)
Deferred income from reinsurance commissions	0	0	0	588
Prevention costs	0	0	0	(1)
Settled gross recourses	1,441	0	1,025	0
Reinsurance share in recourses and claims	1,638	0	2,199	0
Reinsurance share in bonuses	244	0	102	0
Total	3,323	(4,590)	3,326	(4,273)
Net expenses for insurance operations		(1,267)		(947)

c) Other

	2007		2006	
	Revenues	Expenses	Revenues	Expenses
Income from non-banking services	2,730	0	2,203	0
Other operating income	53	0	223	0
Subscriptions	0	(114)	0	(53)
Other operating expenses	0	(83)	0	(12)
Total	2,783	(197)	2,426	(65)
Other net operating profits/losses	2,586		2,361	

5.5.8. Administrative costs

	2007	2006
Labour costs	(6,961)	(5,692)
General and administrative costs	(3,075)	(3,493)
Total	(10,036)	(9,185)

a) Labour costs

	2007	2006

Gross salaries	(4,851)	(3,968)
Costs of pension insurance	(343)	(495)
Social security costs	(549)	(239)
Payroll tax	(233)	(219)
Other labour costs	(985)	(771)
Total	(6,961)	(5,692)

According to the balance as at 31 December 2007, the SID Bank Group did not form any provisions arising from revaluation of salaries.

The earnings of the members of the Management Board or the management of companies in 2007 totalled EUR 1,015 thousand and the earnings of other employees with service contracts amounted to EUR 489 thousand while the members of the Supervisory Board of SID Bank earned EUR 41 thousand.

In 2007, SID Bank's representatives participating in supervisory boards of subsidiary companies did not receive bonuses or other remunerations (session fees) arsing from performance of supervisory functions in SID Group companies.

b) General and administrative costs

	2007	2006
Material costs	(243)	(236)
Service costs	(2,832)	(3,257)
Total	(3,075)	(3,493)

c) Costs of payments to auditors (partly under the item of service costs)

	31.12.2007	31.12.2006
Auditing of the annual report	(147)	(184)
Other auditing services	(3)	0
Other auditing services	0	(18)
Total	(150)	(202)

5.5.9. Depreciation and amortisation

	2007	2006
Depreciation of tangible fixed assets	(567)	(422)
Amortisation of intangible assets	(179)	(115)
Total	(746)	(537)

5.5.10. Provisions

	2007	2006
Bank provisions	836	1,212
Insurance technical reserves	(2,803)	(1,745)
Other provisions	(851)	(626)
Total	(2,818)	(1,159)

a) Bank provisions

	2007	2006
Net changes in provisions for guarantees	166	1,440
- Provision expenses	(1,189)	(1,311)
- Revenues from the release of provisions	1,355	2,751
Net change in provisions for undrawn loans	670	(228)
- Provision expenses	(1,921)	(2,452)
- Revenues from the release of provisions	2,591	2,224
Total	836	1,212

b) Technical provisions

	2007	2006
Changes in gross unearned premiums	654	387
Changes in unearned premiums for reinsurers' share	(332)	(292)
Change in gross provisions for outstanding claims	4,183	3,235
Change in provisions for outstanding claims – reinsurers' share	(2,006)	(2,018)
Changes in gross provision for bonuses and rebates	645	1,099
Reinsurers' share in expenses for bonuses and rebates	(341)	(666)
Total	(2,803)	(1,745)

c) Other provisions

	2007	2006
Net change in provisions for pensions and similar liabilities	(121)	(38)
- Provision expenses	(136)	(48)
- Revenues from the release of provisions	15	10
Net changes in provisions for legal issues	(44)	0
- Provision expenses	(44)	0
Net deferred revenues from reinsurance commissions	(686)	(588)
- Provision expenses	(686)	(588)
Total	(851)	(626)

5.5.11. Impairments

	2007	2006
Impairments of loans and liabilities measured at amortised cost	(18,343)	(12,760)
Impairments of other assets	(155)	(16)
Adjustment to impairments of loans granted to the group companies	(546)	2,102
Income from the elimination of impairments of loans and liabilities measured at amortised cost	14,344	10,195
Income from the elimination of impairments of other assets	136	1
Total	(4,564)	(478)

5.5.12. Corporate income tax related to ordinary activities

	2007	2006
Current tax in the income statement		
- Operations	1,803	1,561
- Transition to IFRS	0	1,222
Total current tax in the income statement	1,803	2,783
Deferred tax	(18)	(54)
Tax expense in the income statement	1,785	2,729
Tax at applicable tax rate	2,249	1,593
Profit before taxes (without posted adjustments)	9,779	6,370
Applicable tax rate	23.0%	25.0%
Effective tax rate from current tax *	18.4%	43.7%
Effective tax rate from tax expense *	18.3%	42.8%

* The 2007 calculation of effective tax rate takes into account only the current tax and tax expenses.

Current tax represents the tax amount which has to be paid according to the Corporate Income Tax Act at the prescribed tax rate, and IFRS-related adjustments. The tax rate for 2007 was 23% and 25% in 2006.

The SID Bank Group had no outstanding tax liabilities on 31 December 2007.

5.6. Risk management

Risk management at SID Bank is presented in item 6.8. of the business section of the annual report.

5.6.1. Balance sheet by maturity as at 31 December 2007

In EUR thousand	Sight	Up to 1 month	1-3 months	3 months - 1 year	1- 5 years	Over 5 years	Total
Cash and balances with the central bank	1	0	0	0	0	298	299
Financial assets held for trading	0	28	0	73	28	0	129
Available-for-sale financial assets	0	2,365	184	16,631	28,747	15,107	63,034
Credit	7,870	56,263	76,907	139,753	378,475	686,758	1,346,026
Property, plant and equipment	0	0	0	0	0	5,569	5,569
Intangible assets	0	0	0	0	0	1,237	1,237
Long-term investments in equity of subsidiaries, associates and joint ventures	0	0	0	0	0	419	419
Corporate income tax assets	0	1	262	1,235	646	125	2,269
Other assets	3,793	298	691	895	829	11,546	18,052
TOTAL ASSETS OF THE SID BANK GROUP	**11,664**	**58,955**	**78,044**	**158,587**	**408,725**	**721,059**	**1,437,034**
Financial liabilities held for trading	0	12	0	162	12	0	186
Financial liabilities measured at amortised cost	0	85,029	8,039	79,230	394,912	707,757	1,274,967
Provisions	0	716	1,328	9,595	14,383	934	26,956
Corporate income tax liabilities	0	27	210	0	2,163	27	2,427
Other liabilities	68	2,267	859	1,107	607	0	4,908
Share capital	0	0	0	0	0	89,600	89,600
Capital reserves	0	0	0	0	0	1,139	1,139
Revaluation surplus	0	(3)	0	(21)	(50)	(322)	(396)
Reserves from profit (including profit retained)	0	0	0	0	0	31,835	31,835
Treasury shares	0	0	0	0	0	(1,324)	(1,324)
Net profit for the year	1,498	0	0	0	0	5,238	6,736
TOTAL LIABILITIES OF THE SID BANK GROUP	**1,566**	**88,048**	**10,436**	**90,073**	**412,027**	**834,884**	**1,437,034**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**10,098**	**(29,093)**	**67,608**	**68,514**	**(3,302)**	**(113,825)**	**0**

5.6.2. Exposure to currency risk as at 31 December 2007

In EUR thousand	EUR	EUR with a currency clause	USD	Other currencies	Total
Cash and balances with the central bank	298	0	0	1	299
Financial assets held for trading	119	0	10	0	129
Available-for-sale financial assets	62,554	0	137	343	63,034
Credit	1,204,696	109,700	23,558	8,072	1,346,026
Property, plant and equipment	5,343	0	0	226	5,569
Intangible assets	1,211	0	0	26	1,237
Long-term investments in equity of subsidiaries, associates and joint ventures	419	0	0	0	419
Corporate income tax assets	2,201	0	0	68	2,269
Other assets	17,943	0	0	109	18,052
TOTAL ASSETS OF THE SID BANK GROUP	**1,294,784**	**109,700**	**23,705**	**8,845**	**1,437,034**
Financial liabilities held for trading	186	0	0	0	186
Financial liabilities measured at amortised cost	1,250,858	0	21,331	2,778	1,274,967
Provisions	26,873	0	8	75	26,956
Corporate income tax liabilities	2,190	0	0	237	2,427
Other liabilities	3,986	309	34	579	4,908
Share capital	89,600	0	0	0	89,600
Capital reserves	1,139	0	0	0	1,139
Revaluation surplus	(397)	0	1	2	(396)
Reserves from profit (including profit retained)	31,835	0	0	0	31,835
Treasury shares	(1,324)	0	0	0	(1,324)
Net profit for the year	6,736	0	0	0	6,736
TOTAL LIABILITIES OF THE SID BANK GROUP	**1,411,682**	**309**	**21,372**	**3,671**	**1,437,034**
DIFFERENCE BETWEEN ASSETS AND LIABILITIES	**(116,898)**	**109,391**	**2,333**	**5,174**	**0**

5.6.3. Exposure to interest rate risk as at 31 December 2007

In EUR thousand	Total	Interest free	Total interest accrued	Sight	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years
Cash and balances with the central bank	299	0	299	1	0	0	0	0	298
Financial assets held for trading	129	129	0	0	0	0	0	0	0
Financial assets measured at amortised cost	63,034	1,208	61,826	266	1,645	183	16,448	28,601	14,683
Credit	1,346,026	16,603	1,329,423	5,091	56,260	76,111	139,555	374,507	677,899
Property, plant and equipment	5,569	5,569	0	0	0	0	0	0	0
Intangible assets	1,237	1,237	0	0	0	0	0	0	0
Long-term investments in equity of subsidiaries, associates and joint ventures	419	419	0	0	0	0	0	0	0
Corporate income tax assets	2,269	2,269	0	0	0	0	0	0	0
Other assets	18,052	18,052	0	0	0	0	0	0	0
TOTAL ASSETS OF THE SID BANK GROUP	**1,437,034**	**45,486**	**1,391,548**	**5,358**	**57,905**	**76,294**	**156,003**	**403,108**	**692,880**
Financial liabilities held for trading	186	186	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	1,274,967	13,203	1,261,764	0	128,762	60,188	10,720	312,761	749,333
Provisions	26,956	26,956	0	0	0	0	0	0	0
Corporate income tax liabilities	2,427	2,427	0	0	0	0	0	0	0
Other liabilities	4,908	4,908	0	0	0	0	0	0	0
Share capital	89,600	89,600	0	0	0	0	0	0	0
Capital reserves	1,139	1,139	0	0	0	0	0	0	0
Revaluation surplus	(396)	(396)	0	0	0	0	0	0	0
Reserves from profit (including profit retained)	31,835	31,835	0	0	0	0	0	0	0
Treasury shares	(1,324)	(1,324)	0	0	0	0	0	0	0
Net profit for the year	6,736	6,736	0	0	0	0	0	0	0
TOTAL LIABILITIES OF THE SID BANK GROUP	**1,437,034**	**175,270**	**1,261,764**	**0**	**128,762**	**60,188**	**10,720**	**312,761**	**749,333**
Net exposure to interest rate risk	**0**	**(129,784)**	**129,784**	**5,358**	**(70,857)**	**16,106**	**145,283**	**90,347**	**(56,453)**
Cumulative exposure	**0**	**(129,784)**	**0**	**5,358**	**(65,499)**	**(49,393)**	**95,890**	**186,237**	**129,784**

6. Disclosures

6.1. Assets and liabilities carried at fair value

In EUR thousand	31.12.2007		31.12.2006	
	Carrying amount	Fair-value	Carrying amount	Fair-value
Cash and balances with the central bank	299	299	2	2
Financial assets held for trading	129	129	157	157
Available-for-sale financial assets	63,034	63,034	54,620	54,620
Credit	1,346,026	1,347,537	860,414	860,970
- Loans to banks	*922,927*	*924,112*	*603,855*	*604,238*
- Loans to clients other than banks	*423,099*	*423,425*	*256,559*	*256,732*
Property, plant and equipment	5,569	6,527	5,549	6,095
Intangible assets	1,237	1,237	1,148	1,148
Long-term investments in equity of subsidiaries, associates and joint ventures	419	419	29	29
Corporate income tax assets	2,269	2,269	683	683
- Assets for corporate income tax	*1,491*	*1,491*	*548*	*548*
- Assetrs for deferred taxes	*778*	*778*	*135*	*135*
Other assets	18,052	18,052	14,729	14,729
TOTAL ASSETS OF THE SID BANK GROUP	**1,437,034**	**1,439,503**	**937,331**	**938,433**
Financial liabilities held for trading	186	186	163	163
Financial liabilities measured at amortised cost	1,274,966	1,275,473	786,533	786,846
- Bank deposits	*22,636*	*22,636*	*0*	*0*
- Deposits of clients other than banks	*32,878*	*32,878*	*43*	*43*
- Loans of banks	*1,211,554*	*1,212,061*	*780,597*	*780,910*
- Loans of clients other than banks			*5,893*	*5,893*
- Debt securities	*7,898*	*7,898*	*0*	*0*
Provisions	26,956	26,956	21,610	21,610
Corporate income tax liabilities	2,427	2,427	3,719	3,719
- Tax liabilities	*2,400*	*2,400*	*2,521*	*2,521*
- Deferred tax liabilities	*27*	*27*	*1,198*	*1,198*
Other liabilities	4,909	4,909	5,604	5,604
TOTAL LIABILITIES	1,309,444	1,309,951	817,629	817,942
TOTAL EQUITY	127,590		119,702	
TOTAL LIABILITIES AND EQUITY OF THE SID BANK GROUP	**1,437,034**	**1,309,951**	**937,331**	**817,942**

Financial instruments that are carried at fair value include:

- Financial assets and liabilities held for trading,
- Available-for-sale financial assets and
- Debt securities issued.

All financial investments are initially recognised at fair value. Upon initial recognition, the fair value is typically the purchase cost. In any subsequent measurement of financial instruments, the market price is used (purchase or offer price).

Fair values:

- Loans measured at amortised cost,
- Property, plant and equipment are measured at cost and
- Financial liabilities measured at amortised cost

differ from their carrying amount disclosed in the balance sheet.

The fair value of granted and raised loans to/from banks and non-banks is the principal as at 31 December 2007 and the accrued interest for the period.

The fair value of property, plant and equipment was only calculated for the construction facility. The assessment was prepared on the basis of inquiries for the purchase of similar facilities comparable by size, activity and location.

The material bases for all other items of property, plant and equipment and intangible assets that would justify the reasons for the deviation of the carrying amount from the fair value are checked at least once a year. It was assessed that the carrying amount is a good approximation of the fair value.

6.2. Credit Risk

6.2.1. Total credit exposure – granted loans

	31.12.2007	31.12.2006
Gross exposure	1,367,726	875,882
Individual impairments	(8,758)	(8,088)
Other impairments	(9,381)	(6,825)
Deferred commissions and interest	(3,561)	(555)
Net exposure	1,346,026	860,414

6.2.2. Loan rescheduling

As at 31 December 2007, the carrying amount of rescheduled loans amounted to SIT 4,824 thousand. The new agreement on the conditions for the repayment of liabilities was reached for two Slovenian companies.

The expected cash flow was taken into account in the establishment of the amount of impairments.

6.2.3. Sensitivity analysis

6.2.3.1. Loans and deposits

The sensitivity analysis for loans and deposits is based on the assumption that the interest rate would change by 100 basis points (1% p.a.) for all loans and deposits which, according to management, represents the changes in the interest rates that were reasonably possible at that date. The impact on net interest income in the first year of change has also been calculated.

If the market interest rates increased by 100 basis points, the net interest income of the SID Bank Group would increase by EUR 917 thousand in 2008 (by EUR 702 thousand in 2007). The change would be reflected as higher revenues in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

6.2.3.2. Debt securities

The sensitivity analysis of the securities portfolio was based on the change in the interest rate. The analysis shows how the fair values of all securities or future cash flows of financial instruments would fluctuate due to the changes in market interest rates on the reporting date. The analysis does not include mutual funds which do not respond to the changes in interest rates to the same extent as debt financial instruments – bonds with fixed or variable interest rate.

The analysis separately calculates the responsiveness of bonds with variable and those with fixed interest rate in view of changes in the market interest rate. The calculation takes into account the average maturity of the portfolio which was 3.13 years in 2007 (3.00 years in 2006). The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1% p.a.).

In bonds with variable interest rate the change in market interest rate by 100 basis points is reflected in equal amount of the change in the coupon of such bonds. If the market interest rates increased by 100 basis points, the portfolio of the SID Bank Group would increase by EUR 173 thousand in 2007 (by EUR 105 thousand in 2006), which represents an increase of 1% of the portfolio in real terms. The change would be reflected as a gain in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

In bonds with fixed interest rate, the increase in the market interest rate by 100 basis points would mean a reduction of the portfolio by 270 basis points or 2.7% in 2007. For 2007, this means reduction of EUR 1,190 thousand (2006: EUR 1,197 thousand). The total difference would be reflected as a reduction directly in capital. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

For the total portfolio of bonds, the increase in market interest rate by 100 basis points in 2007 would result in the reduction in the value of portfolio by EUR 1,017 thousand, of which EUR 1,190 thousand would be reflected directly in capital and as a gain in the amount of EUR 173 thousand in the income statement (for 2006: the change totalled EUR 1,092 thousand, of which EUR 1,197 thousand as a decrease in capital and as a gain totalling EUR 105 thousand in the income statement). For the total portfolio of bonds, the decrease in market interest rate by 100 basis points in 2007 would result in the increase of the value of portfolio by EUR 1,017 thousand of which EUR 1,190 thousand would be reflected directly in capital and as a loss totalling EUR 173 thousand in the income statement (for 2006: the change totalled EUR 1,092 thousand, of which EUR 1,197 thousand as an increase in capital and as a loss totalling EUR 105 thousand in the income statement).

6.3. Value of collateral for granted and received loans

Total fair value of loan collateral of the SID Bank Group as at 31 December 2007 was EUR 233,101 thousand.

In terms of the type of collateral, the assignment of receivables as collateral represents the largest proportion, followed by other corporate guarantees without a credit rating or with a rating below A-, pledged commercial real property at market value, pledged receivables as collateral with value assessment, insurance policies of SID Bank on behalf of the Republic of Slovenia and other valued collateral.

Liabilities arising from foreign loans raised by SID Bank are fully collateralised by a guarantee of the Republic of Slovenia. The PRVI FAKTOR Group collateralised its raised loans with bills of exchange and the owners' letters of comfort (SID Bank and NLB d.d.).

6*.4. Due loans and receivables and impairments*

As at 31 December 2007, the carrying amount of the only outstanding receivable from guarantees given amounted to EUR 318 thousand.

Individually impaired loans and receivables

In EUR thousand	2007	2006
Gross exposure	28,018	26,345
Individual impairments	(8,758)	(8,398)
Deferred commissions and interest	(2,069)	0
Net exposure	17,191	17,947

Receivables from clients for which individual impairments were formed are collateralised by receivable assignment contracts, pledged equity interests, mortgaged commercial real estate, pledged rights to inventories and assignment of insurance policies.

The structure of exposure of loans and receivables by maturity

Year 2007

	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	920,970	1,957	0	0	0	922,927
Loans to clients other than banks	410,372	3,528	6,683	2,264	252	423,099
Other assets (excluding insurance items)	482	0	0	0	0	482
Total	1,331,824	5,485	6,683	2,264	252	1,346,508

In 2006

	Outstanding	Overdue up to 1 month	Overdue 1 - 3 months	Overdue 3 - 12 months	Overdue more than 1 year	Total
Loans to banks	603,855	0	0	0	0	603,855
Loans to clients other than banks	246,281	5,343	4,935	0	0	256,599
Other assets (excluding insurance items)	477	0	0	0	0	477
Total	850,613	5,343	4,935	0	0	860,891

In 2007, only value adjustments of loans were formed in the amount of EUR 18,147 thousand (in 2006 – EUR 15,002 thousand).

6.5. Liquidity Risk

Managing liquidity risk means maintaining sufficient liquidity sources to settling current liabilities. The companies of the SID Bank Group manage liquidity risk by planning inflows and outflows and by ensuring an appropriate balance of highly liquid financial investments. Therefore, part of the investments of the SID Bank Group is short-term, which reduces the illiquidity risk. Each company in the SID Bank Group is responsible for its liquidity; occasional surpluses and deficits of liquid assets within the SID Bank Group are bridged by intra-group placement of assets.

6.6. Concentration of credit portfolio risks by activity

	2007		2006	
Banks	913,388	67.9%	603,855	70.2%
Non-financial organisations	341,969	25.4%	200,514	23.3%
Other financial institutions	90,668	6.7%	56,045	6.5%
Total	1,346,025	100%	860,414	100%

Due to the different nature of operations and specific risks typical for insurance companies, we present below additional disclosures for the insurance sector of the SID Bank Group.

6.7. Other disclosures for the insurance sector of the SID Bank Group

6.7.1. Insurance risk

The insurance sector of the SID Bank Group maintains a portfolio of loan collateral which is uniform in all material aspects (traditional loan collateral), Thus no segment reporting is required. Direct and indirect insurance contracts were concluded in 2007. The latter were used to provide coverage, based on facultative quota reinsurance, for insurance operations of loan collateral, collateralised with export credit agencies. The principal characteristics of insurance transactions reinsured in such a manner were the same as direct insurance transactions and were immaterial in terms of volume in 2007 compared to direct transaction.

Short-term receivables from private buyers (as a rule, these are the loans of suppliers with a maturity of up to 180 days, exceptionally up to 1 year) are insured against commercial and non-commercial risks for sales abroad and/or at home on deferred payment and usually on an open account. The contracts are renewable and as a rule, the total turnover of the insured on the domestic and/or foreign markets is secured.

Contracts are usually concluded for one year, exceptionally for three years. The contracts contain a self-retention clause which is determined as the percentage of loss.

The insured obtains insurance coverage for an individual buyer when the limit for such coverage is granted. The limits of individual buyers represent an important tool for managing risks, which is used for determining the maximum amount of loss. Furthermore, the insurance company may reduce or cancel the granted limit for any buyer at any time. By cancelling or reducing the limit for a client exposure to such that client is reduced.

Risks can also be managed by limiting exposure by individual activities. The common exposure limits by country can be determined in the same way or by completely excluding coverage for an individual country, which represents an important tool for managing political risks.

6.7.2. The competences and management of insurance risks and tools for managing insurance risks

Insurance contracts can only be signed by the Management Board. The manager authorised to assume risks has the Management Board's authorisation to make agreements on credit insurance up to a certain amount of the annual premium, while only the Management Board is authorised to assume risks above the amount of the annual premium. The insurance offers and contracts are prepared according to the "four-eyes" principle.

The employees of the Risk Department are authorised, based on their experience, to assess risks on the basis of which the receivables due from individual debtor or the debtors belonging to the same group (companies associated in terms of ownership or management) are insured. Depending on the amount of exposure to the debtor or the group of debtors, the employee signatures with appropriate authorisations must be provided. Insurance of large exposures to debtors is decided by the Management Board and, when a certain amount is exceeded, also reinsurers. For most of receivables to be insured, the debtor's assessment is required as well as approval of insurance by (at least) two expert colleagues or management with appropriate authorisations (four-eyes principle).

The management of the parent company demands that the subsidiary dealing with insurance regularly report on the insurance operations on a cumulative basis and at the same time report on the fluctuation of insurance in relation to important events that affect the level of risk in such operations (business sectors, rating information at country level, rating information at segment level and significant market information). The subsidiary discloses exposure by client, by economic sector and by geographical region.

6.7.3. Reinsurance

The insurance sector of the SID Bank Group protects its portfolio of insured risk with several reinsurance contracts. The majority of operations is secured by means of a quota reinsurance contract which is multi-level, with a controlling interest of 55%. It continued to protect its retention by means of the excess of loss reinsurance which was structured in such a manner that the retained amount after the risk or the group of risks does not exceed EUR 1,500 thousand. The excess of loss reinsurance programme has an available quota in total amount of EUR 2,000 thousand with the possibility of additional purchase.

The reinsurance contract covers all risks of the insurance portfolio (insurance against commercial and non-commercial risks).

In 2007, the insurance sector of the SID Bank Group further protected its portfolio with a contract made between SID Bank as the authorised institution representing the Republic of Slovenia (reinsurer) and an insurance company (cedant). For the insurance sector of the SID Bank Group, this contract represents reinsurance coverage for risks in those countries where no reinsurance coverage can be obtained on the private reinsurance market and for the accumulation of risks by country, but only in case the non-commercial risks are also covered in these countries.

6.7.4. Frequency of and scope of losses

Several factors affect the frequency and scope of losses which otherwise affect credit risks. The economic situation has the strongest impact. The actions of the insured can also have a significant impact on the scope and frequency of losses - on the one hand through the inherent risk related to the insured's activity and on the other hand by the method of managing risks used by the insured.

The business process of the insurance sector of the SID Bank Group is structured so as to manage the impact of as many factors that affect the scope and frequency of losses as possible. The method is described in previous points.

6.8. Events after the balance sheet date

There were no business events after the balance sheet date that would influence the financial statements for 2007.

7. Appendices

ANNEX 1

7.1 Separate balance sheets by segment

SID BANK		
In EUR thousands	31.12.2007	31.12.2006
Cash and balances with the central bank	298	0
Financial assets held for trading	129	157
Available-for-sale financial assets	40,728	35,411
Credit	1,192,496	758,517
- Loans to banks	*915,674*	*594,174*
- Loans to clients other than banks	*276,822*	*164,343*
Property, plant and equipment	5,091	5,152
Intangible assets	600	609
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	6,323
Corporate income tax assets	1,373	55
Other assets	290	253
TOTAL ASSETS	**1,248,717**	**806,477**
Financial liabilities held for trading	186	163
Financial liabilities measured at amortised cost	1,137,069	694,395
Provisions	883	1,742
Corporate income tax liabilities	2,190	2,558
Other liabilities	835	3,221
CAPITAL AND LIABILITIES	1,141,163	702,079
Share capital	89,600	38,906
Capital reserves	1,139	27,631
Revaluation surplus	(331)	130
Reserves from profit (including profit retained)	17,566	38,747
Treasury shares	(1,324)	(1,324)
Net profit/loss for financial year	904	308
EQUITY	107,554	104,398
TOTAL LIABILITIES AND CAPITAL	**1,248,717**	**806,477**

PKZ		
In EUR thousands	31.12.2007	31.12.2006
Available-for-sale financial assets	22,306	19,209
Credit	5,802	4,857
Property, plant and equipment	81	95
Intangible assets	85	3
Corporate income tax assets	760	548
Other assets	17,673	14,302
- Reinsurance contracts	*17,570*	*14,177*
- Other	*103*	*125*
TOTAL ASSETS	**46,707**	**39,014**
Provisions	25,984	19,816
- Technical	*23,804*	*18,321*
- Other	*2,180*	*1,495*
Corporate income tax liabilities	0	1,161
Other liabilities	2,037	1,915
CAPITAL AND LIABILITIES	28,021	22,892
Share capital	4,206	4,206
Revaluation surplus	(1)	119
Reserves from profit (including profit retained)	12,983	11,569
Net profit/loss for financial year	1,498	228
EQUITY	18,686	16,122
TOTAL LIABILITIES AND CAPITAL	**46,707**	**39,014**

PRVI FAKTOR GROUP		
In EUR thousands	31.12.2007	31.12.2006
Cash and balances with the central bank	1	2
Credit	161,799	107,379
- Loans to banks	*5,981*	*4,824*
- Loans to clients other than banks	*155,818*	*102,555*
Property, plant and equipment	397	302
Intangible assets	64	48
Corporate income tax assets	136	80
Other assets	112	253
TOTAL ASSETS	**162,509**	**108,064**
Financial liabilities measured at amortised cost	153,160	104,580
Provisions	89	52
Corporate income tax liabilities	237	0
Other liabilities	2,106	479
CAPITAL AND LIABILITIES	155,592	105,111
Share capital	1,584	584
Capital reserves	1,015	1,015
Revaluation surplus	(64)	2
Reserves from profit (including profit retained)	1,260	167
Net profit/loss for financial year	3,122	1,185
EQUITY	6,917	2,953
TOTAL LIABILITIES AND CAPITAL	**162,509**	**108,064**

ANNEX 2

7.2. Separate income statements by segments

SID BANK		
In EUR thousands	2007	2006
Interest and similar revenues	47,547	27,333
Interest expenses and similar expenses	(38,810)	(19,834)
Net interest	8,737	7,499
Revenues from dividends	1,031	33
Revenues from commissions	566	335
Expenses for commissions	(101)	(83)
Net fees and commissions	465	252
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss	(17)	(33)
Net profits/losses from financial assets and liabilities held for trading	20	130
Changes in fair value when calculating risk insurance	0	20
Net exchange rate gains/losses	(258)	(482)
Net profits/losses from derecognition of assets, excluding non-current assets	0	(6)
Other net operating profits/losses	2,593	2,607
Administrative costs	(5,240)	(4,767)
Depreciation and amortisation	(562)	(432)
Provisions	709	1,216
Impairments	(3,387)	(2,575)
PROFIT/LOSS FROM ORDINARY ACTIVITIES	**4,091**	**3,462**
Corporate income tax	(455)	(884)
Deferred taxes	(20)	(21)
NET PROFIT/LOSS FOR THE FINANCIAL YEAR	**3,616**	**2,557**

PKZ		
In thousands of EUR	2007	2006
Interest and similar revenues	1,067	858
Net interest	1,067	858
Revenues from commissions	719	1,579
Expenses for commissions	(789)	(923)
Net fees and commissions	(70)	656
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	(61)	81
Net profits/losses due to exchange rate differences	(48)	(8)
Other net operating profits/losses	6,999	4,285
- Revenues from insurance premiums	*8,352*	*4,966*
- Expenses for insurance operations	*(1,267)*	*(672)*
- Other	*(86)*	*(9)*
Administrative costs	(2,382)	(2,081)
Depreciation and amortisation	(41)	(25)
Provisions	(3,490)	(2,342)
- Technical	*(2,804)*	*(1,745)*
- Other	*(686)*	*(597)*
Impairments	23	18
PROFIT/LOSS FROM ORDINARY ACTIVITIES	**1,997**	**1,442**
Corporate income tax	(443)	(286)
Deferred taxes	(27)	10
NET PROFIT/LOSS FOR THE FINANCIAL YEAR	**1,527**	**1,166**

PRVI FAKTOR GROUP		
in thousands of EUR	2007	2006
Interest and similar revenues	9,817	4,829
Interest expenses and similar expenses	(6,602)	(2,752)
Net interest	3,215	2,077
Revenues from commissions	3,029	1,947
Expenses for commissions	(839)	(9)
Net fees and commissions	2,190	1,938
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	0	0
Net exchange rate gains/losses	1,725	0
Other net operating profits/losses	289	24
Administrative costs	(2,895)	(2,438)
Depreciation and amortisation	(143)	(80)
Provisions	(37)	(34)
Impairments	(654)	(23)
PROFIT/LOSS FROM ORDINARY ACTIVITIES	**3,690**	**1,464**
Corporate income tax	(591)	(322)
Deferred taxes	23	23
NET PROFIT/LOSS FOR THE FINANCIAL YEAR	**3,122**	**1,165**

ANNEX 3

7.3. Separate balance sheet disclosing liabilities and investments from own sources and liabilities and investments from the sources backed by the guarantee of the Republic of Slovenia

Assets and liabilities from own sources		
In thousands of EUR	31.12.2007	31.12.2006
Cash and balances with the central bank	298	0
Financial assets held for trading	129	157
Available-for-sale financial assets	30,689	35,411
Credit	138,613	72,267
- Loans to bank customers	*94,405*	*50,059*
- Loans to clients other than banks	*44,208*	*22,208*
Property, plant and equipment	5,091	5,152
Intangible assets	600	609
Long-term investments in equity of subsidiaries, associates and joint ventures	7,712	6,322
Corporate income tax assets	1,373	55
- Assets for corporate income tax	*1,229*	*0*
- Assets for deferred taxes	*144*	*55*
Other assets	290	254
TOTAL ASSETS	**184,795**	**120,227**
Financial liabilities held for trading	186	163
Financial liabilities measured at amortised cost	67,944	42
- Bank deposits	*26,205*	*0*
- Deposits of clients other than banks	*32,880*	*42*
- Debt securities	*8,859*	*0*
Provisions	863	1,053
Corporate income tax liabilities	2,190	2,558
- Tax liabilities	*2,163*	*2,521*
- Deferred tax liabilities	*27*	*37*
Other liabilities	5,971	12,013
TOTAL LIABILITIES	77,154	15,829
Share capital	89,600	38,906
Capital reserves	1,139	27,631
Revaluation surplus	(244)	130
Reserves from profit (including profit retained)	17,566	38,747
Treasury shares	(1,324)	(1,324)
Net profit for the year	904	308
TOTAL EQUITY	107,641	104,398
TOTAL LIABILITIES AND CAPITAL	**184,795**	**120,227**

Liabilities and investments from sources backed by the guarantee of the Republic of Slovenia		
In thousands of EUR	31.12.2007	31.12.2006
Available-for-sale financial assets	10,039	0
Credit	1,053,883	686,250
- Loans to bank customers	*821,269*	*538,957*
- Loans to clients other than banks	*232,614*	*147,293*
Other assets	5,136	8,791
TOTAL ASSETS	**1,069,058**	**695,041**
Financial liabilities measured at amortised cost	1,069,125	694,352
- Loans of banks	*1,069,125*	*694,352*
Provisions	20	689
TOTAL LIABILITIES	1,069,145	695,041
Revaluation surplus	(87)	0
TOTAL EQUITY	(87)	0
TOTAL LIABILITIES AND CAPITAL	**1,069,058**	**695,041**

7.4. Separate income statement disclosing operations financed by own sources and operations backed by the guarantee of the Republic of Slovenia

Operations financed by own sources		
In thousands of EUR	2007	2006
Interest and similar revenues	6,367	5,053
Interest expenses and similar expenses	(1,216)	(268)
Net interest	5,151	4,785
Revenues from dividends	1,031	33
Revenues from commissions	336	273
Expenses for commissions	(34)	(42)
Net fees and commissions	302	231
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	(21)	(33)
Net profits/losses from financial assets and liabilities held for trading	20	130
Changes in fair value when calculating risk insurance	0	20
Net exchange rate gains/losses	68	(41)
Net profits/losses from derecognition of assets, excluding non-current assets	0	(6)
Other net operating profits/losses	2,480	2,490
Administrative costs	(5,240)	(4,767)
Depreciation and amortisation	(562)	(432)
Provisions	40	1,449
Impairments	504	(2,403)
Profit from ordinary operations *	**3,773**	**1,456**

Operations backed by the guarantee of the Republic of Slovenia operations		
In thousands of EUR	2007	2006
Interest and similar revenues	41,181	22,280
Interest expenses and similar expenses	(37,594)	(19,565)
Net interest	3,587	2,715
Revenues from dividends	0	0
Revenues from commissions	230	62
Expenses for commissions	(68)	(41)
Net fees and commissions	162	21
Profits/losses from financial assets and liabilities not measured at fair value through profit or loss	3	0
Net exchange rate gains/losses	(325)	(441)
Other net operating profits/losses	113	116
Provisions	668	(233)
Impairments	(3,890)	(172)
Profit from ordinary operations *	**318**	**2,006**

* only shown up to the gross profit, tax calculated on total result

ANNEX 5

7.5. Financial statements disclosing insurance against non-marketable risks (on behalf of the Republic of Slovenia)

Balance sheet

In EUR thousands	31.12.2007	31.12.2006
Loans to banks	62,803	68,425
Loans to clients other than banks	2,520	2,686
Securities	38,278	27,891
Other assets	3,677	3,702
TOTAL CONTINGENCY RESERVES	107,278	102,704
Safety margin	102,965	97,848
Revaluation surplus from available-for-sale financial assets	(330)	(124)
Accrued expenses and deferred revenues	4,643	4,980
Total liabilities for contingency reserves	107,278	102,704

Profit or loss

In thousands of EUR	2007	2006
Interest and similar revenues	4,249	2,586
Net interest	4,249	2,586
Technical items		
- Insurance and reinsurance premiums	*3,875*	*6,660*
- Reinsurance and processing fee	*(155)*	*(439)*
- Claims	*(349)*	*(994)*
- Recourses	*68*	*81*
- Bonuses	*(1)*	*0*
Total technical items	3,438	5,308
Other net commissions and fees	6	13
Net gain from financial transactions	(90)	(24)
Operating costs	(2,486)	(2,490)
Surplus of income over expenses	5,117	5,393

7.6. Financial statements of the interest rate equalisation programme (on behalf of the Republic of Slovenia)

Balance sheet

In thousands of EUR	31.12.2007	31.12.2006
Loans to banks	1,476	1,461
Available-for-sale financial assets	3,918	0
TOTAL INVESTMENTS WITHIN THE INTEREST RATE EQUALISATION PROGRAMME	**5,394**	**1,461**
Safety margin	5,402	1,461
Revaluation surplus from available-for-sale financial assets	(9)	0
Other liabilities	1	0
TOTAL LIABILITIES WITHIN THE INTEREST RATE EQUALISATION PROGRAMME	**5,394**	**1,461**

Profit or loss

in thousands of EUR	2007	2006
Interest and similar revenues	95	0
Net interest	95	0
Net profit from financial transactions	2	0
Operating costs	(2)	0
Surplus of income over expenses	**95**	**0**

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INDEPENDENT AUDITOR'S REPORT TO THE MANAGEMENT BOARD OF SID – SLOVENSKA IZVOZNA IN RAZVOJNA BANKA, d.d., LJUBLJANA

FOR REPORTING TO THE BANK OF SLOVENIA PURSUANT TO THE REGULATION ON THE AUDIT REVIEW OF THE ANNUAL REPORTS OF BANKS AND SAVINGS BANKS

In connection with:

- disclosures referred to in Article 207(1) of the Banking Act (Official Gazette of the Republic of Slovenia No. 131/2006 and 1-2/2008; hereinafter "ZBan-1"),
- the quality of information system, and
- compliance with risk management rules,

we reviewed/audited, in accordance with a definition of a banking group under Article 297 of the Banking Act and on the basis of a communication of the Bank of Slovenia to SID Banka d.d., Ljubjana dated 18 October 2006 (24.20-0821/06 MK), whether the banking group SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter "the Banking Group") complied with ZBan-1 and its implementing regulations – Regulation on Disclosures by Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135; hereinafter "the Regulation on Disclosures"), Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006, 28/2007, 104/207; hereinafter "the Regulation on Risk Management"), Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 28/2007; hereinafter "the Regulation on Loss Assessment") and Regulation on the Calculation of Own Funds of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 135/2006 and 104/2007; hereinafter "the Regulation on the Calculation of Own Funds") – in the financial year ended 31 December 2007.
The appropriateness of disclosures referred to in Article 207(1) of the Banking Act, information system quality, and compliance with risk management rules laid down in the above regulations are the responsibility of the Management Board. Our responsibility is to issue a report based on a review/audit of compliance with the above regulations.

Scope of review/audit

The review of the information system was conducted in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the information reviewed is free of material misstatement. A review is limited primarily to inquiries of the Group's personnel and analytical procedures applied to the information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. We believe that our review provides a reasonable basis for our assurance conclusions.

The review of the appropriateness of disclosures referred to in Article 207(1) of the Banking Act and review of compliance with risk management rules were conducted in accordance with the International Standard on Auditing 800 – The Auditor's Report on Special Purpose Audit Engagements. The standard requires that we plan and perform the audit to obtain reasonable assurance about whether disclosures made in the annual report in accordance with Article 207(1) of the Banking Act are free of material misstatements and whether the Banking Group complied with all relevant provisions of general risk management standards as provided by the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks. An audit also includes assessing the principles used and estimates made by management as well as evaluating the overall presentation of the appropriateness of disclosures and compliance with risk management rules. We believe that our audit provides a reasonable basis for our opinion.

Opinion on disclosures

In our opinion, the Banking Group's disclosures referred to in Article 207(1) of ZBan-1 for the accounting period ended 31 December 2007 comply, in all material respects, with the provisions of ZBan-1 and the Regulation on Disclosures.

In terms of content, disclosures referred to in Article 207(1) of ZBan-1 are consistent with the annual report.

In our opinion, the Banking Group's disclosure policies are appropriate and comply, in all material respects, with the Regulation on Disclosures.

Assurance on the quality of the information system

Because we were not provided with a strategy for the development of information systems of the Banking Group we are unable to give an opinion on the review performed in connection with the security of information systems and on its conformity with the Banking Group's strategy. In connection with the above, we are also unable to give an assurance about whether the Banking Group complied with recommendations laid down in the Slovene standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 issued by the Slovene Standardisation Institute or other authorised body (in the independent auditor's report to the Management Board of Slovenska izvozna in razvojna banka, d.d., Ljubljana issued for the purpose of reporting to the Bank of Slovenia in accordance with the Regulation on the Audit Review of the Annual Reports of Banks and Savings Banks dated 27 April 2007 it is indicated that in its documented policies as well as practices SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana applies several recommendations laid down in the Slovene standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 with certain deviations).

With regard to all other cases, nothing has come to our attention during the review that would cause us to believe that risk management information support does not comply, in all material respects, with the requirements of the Bank of Slovenia.

Without qualifying our opinion, we wish to point out the following:

- information systems for the management of market risks, interest rate risk, operational risk and liquidity risk mostly exist in the form of Excel spreadsheets and are thus subject to the possibility of errors in the capturing and presenting of data;
- the Banking Group has not laid down rules regarding the risk management information support.

Assurance on compliance with risk management rules

In our opinion, the Banking Group complied, in all material respects, with the following as at 31 December 2007:

- general standards on credit risk management as stipulated in Appendix I of the Regulation on Risk Management;
- provisions of the Regulation on Loss Assessment, in connection with credit risk;
- provisions of the Regulation on the Calculation of Own Funds, in connection with own funds and capital requirements.

Without qualifying our opinion, we wish to point out that given the specifics of the Banking Group, the latter has not prepared and adopted strategies and policies for assuming and managing risks related to interest rates and liquidity at the level of the Banking Group but at the level of individual companies/banks.

Without qualifying our opinion in connection with Article 16 of the Regulation on the Audit Review of the Annual Reports of Banks and Savings Banks, we wish to point out the following:

- the Banking Group's methodology for identifying, measuring, managing and monitoring concentration risk within the credit risk by industries and countries is insufficient;
- the Banking Group has not yet established a methodology for assessing the value of collaterals.

Without qualifying our opinion, we point out in connection with Article 26 of the Regulation on the Audit Review of the Annual Reports of Banks and Savings Banks that the Banking Group has not yet prepared a scenario for liquidity management in extraordinary situations – appropriate procedures are determined when such events occur.

In 2007 Internal Audit performed internal audit procedures within the Banking Group only for SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana, because an internal audit of the joint venture was performed by internal auditor of another venturer as agreed upon in the joint venture management agreement.

Without qualifying our opinion, we wish to point out that the Banking Group implemented all auditor's recommendations from previous years.

Deloitte revizija d.o.o.

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 1

Andreja Bajuk Mušič

Certified Auditor

Andreja Bajuk Mušič

Yuri Sidorovich

Partner/President of the Board

Ljubljana, 27 April 2008

IV. DISCLOSURES BASED ON THE REGULATION ON DISCLOSURES BY BANKS AND SAVINGS BANKS

Pursuant to the Regulation on Consolidated Supervision (bank consolidation), SID Bank and, based on proportional consolidation, the PRVI FAKTOR Group are included in consolidated financial statements. The PRO KOLEKT Group is excluded as the Bank of Slovenia was informed, in writing, that its total assets were less than EUR 10,000 and less than 1% of the total assets of SID Bank. Investment in the PRO KOLEKT Group is not a deduction item in the calculation of the capital of the SID Bank Group. Pursuant to the IFRS, the consolidated financial statements of the SID Bank Group include, in addition to SID Bank, the insurance company PKZ (full consolidation) and the PRVI FAKTOR Group (proportional consolidation). The banking and financial consolidation thus differ insofar as the latter includes the insurance company PKZ.

Risk management strategy and processes

The management of risks and the attitude towards risks, given the company's operating objectives, is one of the main challenges of every bank or financial institution. Similar to the management of risks at SID Bank, the main purpose of risk management in the SID Bank Group is to reduce the probability of risk realisation and to mitigate loss in case a certain risk is realised. Risk management comprises identifying, measuring and mitigating risks, while its purpose is secure and stable operations. In the scope of risk management, the SID Bank Group prioritises security and stability of operations which, in the long term, increases the value of capital, preserves the institution's reputation and maximises the benefits of the users of services provided by the SID Bank Group and other shareholders.

Risk management is a permanent process of identifying, measuring, assessing, managing, monitoring and mitigating risks, carried out in accordance with SID Bank's long-term strategy, while its purpose is the secure and stable operations of the SID Bank Group. The process starts with the establishment of an appropriate organisational structure and work processes, which facilitate the achievement of business objectives with the simultaneous compliance of operations with the safety regulations. In the implementation of risk management measures, the principal objective is to achieve appropriate awareness at all levels of the Group's operations.

The risk management process is carried out in organisational units separated from commercial organisational units up to the level of the Management Board, which ensures independence. The following organisational units are responsible for direct implementation:

- Credit committee: management of credit risks and large exposures,
- Liquidity committee: liquidity and currency risks,
- Assets and liabilities committee: balance sheet structure, capital adequacy, aggregate risks,
- Risk management department: preparing risk management policies, monitoring risks,
- Credit ratings department: assessment of the clients' financial position,
- Back office and payment transactions: daily monitoring of currency and liquidity risk in accordance with established limits.

Risks encountered by the SID Bank Group include credit, currency, liquidity, interest and operational risks. Special attention is paid to the measurement and management of credit risk at the level of the SID Bank Group and exposure of the group to individual clients, sectors, and countries.

Risk management in the SID Bank Group is a complex process due to two different owners. The internal structure of the SID Bank Group has been adequately supplemented so that risk management processes are harmonised throughout the Group. The parent company and the subsidiary have defined procedures for assuming, identifying, measuring and mitigating risks. Both companies are responsible for the independent management of risks. They have credit committees which check the Group's credit exposure. Each limit above EUR 2 million is treated individually and eventually approved. Special attention is paid to credit risk, as it is the most significant risk. Risk management departments exist at all companies, as well as an internal audit service.

Capital

Capital adequacy of SID Bank Group (SID Bank for own account and the PRVI FAKTOR Group)

In thousands of EUR	31.12.2007
Paid-up share capital	89,600
Treasury shares	(1,324)
Capital reserves	1,139
Profit reserves and retained earnings	17,942
Other core capital deduction items	(20,868)
- Intangible assets,	(1,152)
- Difference between the reported impairments and provisions according to IFRS and the regulation on loss assessment	(19,716)
Core capital	86,489
Additional capital	46
Total core and additional capital I	86,535
Deduction items from core capital and additional capital I	(4,206)
- Interest in insurance companies	(4,206)
Total capital - for the purpose of capital adequacy	82,329
Capital requirements	(23,434)
- For credit, settlement and counterparty risks	(22,592)
- For currency risk	(842)
Share premium	58,895
Capital adequacy ratio	28.11

Core capital deduction items include intangible assets and statutory additional impairments and provisions. Tier I additional capital includes revaluation adjustment in connection with available-for-sale financial assets (debt securities). The deduction item of core and Tier I additional capital includes the investment in the insurance company PKZ.

In line with the regulations of the Bank of Slovenia, the minimum amount of SID Bank's core capital is EUR 5,000 thousand, while the prescribed capital adequacy ratio is 8%.

Credit Risk

Credit risk is the risk of loss owing to the failure of a debtor to discharge its liabilities. Credit risk management starts prior to entering into a contractual relationship by determining a client's creditworthiness and establishing appropriate collateral. The establishment of exposure is approved by the credit committee. During the term of a transaction, credit risk is managed by monitoring and managing the credit portfolio, limiting credit risk concentration to a specific client, group, sector or country, classifying and creating impairments for expected losses and providing sufficient capital for cases when losses exceed expectations.

The following are included in credit risk:

- Risk of losses arising from credit operations,
- Risk arising from the geographic location of the debtor's country,
- Risks arising from a securities issuer,
- Counterparty credit risk in settlement and derivative financial instruments.

- **Total credit exposure – granted loans as at 31 December 2007**

In EUR million	31.12.2007
Gross exposure	1,352.8
Individual impairments	(8.7)
Other impairments	(9.3)
Deferred commissions and interest	(3.5)
Net exposure	1,331.3

Notwithstanding the introduction of individual assessment of losses and the calculation of impairments according to the IFRS due to which there was no need for monitoring the classification of the Bank of Slovenia into classes A to E for individually impaired financial assets, the SID Bank Group continued maintaining such classification. Top-quality clients are rated A, while the worst rating is E. The quality of the credit portfolio can thus change continuously by means of three credit rating classes and can be compared with other banks.

• Portfolio of the SID Bank Group by credit rating categories as at 31 December 2007

Group	In EUR millions	Interest
A	1,000.7	75.2%
B	279.5	21.0%
C	44.0	3.3%
D	7.1	0.5%
F	0.0	0.0%
Total	**1,331.3**	**100.0%**

Total value of loan collateral of the SID Bank Group as at 31 December 2007 was EUR 233,101 thousand.

In terms of the type of collateral, the assignment of receivables as collateral represents the largest proportion, followed by other corporate guarantees without a credit rating or with a rating below A-, pledged commercial real property at market value, pledged receivables as collateral with value assessment, insurance policies of SID Bank on behalf of the Republic of Slovenia and other valued collateral.

The risk of securities issuers arises from the portfolio which is managed by the SID Bank Group with the aim of ensuring liquidity and managing assets. The SID Bank Group does not perform trading operations. The SID Bank Group manages credit risks by imposing limits regarding the credit rating of the issuers and by monitoring market values of securities.

• Credit portfolio by debtor country as at 31 December 2007

Country	In EUR millions	Interest
Slovenia	1,064.7	80.0%
Croatia	125.1	9.4%
Serbia	59.6	4.5%
Bosnia-Herzegovina	19.8	1.5%
Montenegro	10.2	0.8%
Russia	15.0	1.1%
Other countries	36.9	2.8%
Total	**1,331.3**	**100.0%**

• Portfolio of securities by credit rating of the issuer as at 31 December 2007

Rating according (S&P)	In EUR millions	Interest
AA or higher	16.0	39.3%
BBB- to AA-	11.8	29.0%
No credit rating	12.9	31.7%
Total	**40.7**	**100.0%**

The Prvi Faktor Group does not have any securities.

Liquidity Risk

• Balance sheet by maturity as at 31 December 2007

	Assets		**Liabilities**		**Gap**
Maturity class	In EUR millions	% of total assets	In EUR millions	% of total assets	In EUR millions
Sight	6.7	0.5%	0.1	0.0%	6.6
Up to 1 month	10.2	0.7%	83.3	6.0%	(73.1)
1-3 months	48.4	3.5%	8.3	0.6%	40.1
3 months to 1 year	229.7	16.4%	95.3	6.8%	134.4
from 1 to 5 years	392.5	28.1%	389.0	27.8%	3.5
Over 5 years	711.7	50.9%	823.1	58.8%	(111.5)
Total	**1.399.1**	**100.0%**	**1.399.1**	**100.0%**	**0.0**

Currency risk

• Balance sheet by currency structure as at 31 December 2007

	Assets		Liabilities		Gap	
	In EUR millions	% of total assets	In EUR millions	% of total assets	In EUR millions	% of capital *
EUR	1,367.9	97.8%	1,374.1	98.2%	(6.2)	(7.5%)
USD	22.7	1.6%	21.3	1.5%	1.3	1.6%
Non–euro currencies	8.5	0.6%	3.6	0.3%	4.9	5.9%
Total	**1,399.1**	**100.0%**	**1,399.1**	**100.0%**	**0.0**	**0.0%**

**Note: Capital pursuant to the Bank of Slovenia Regulation on the Calculation of Capital Adequacy of Banks and Savings Banks.*

Interest Rate Risk

• Sources and investments by the remaining period until re-determination of interest rate as at 31 December 2007

	Assets		Liabilities		Gap
Maturity class	In EUR millions	% of total assets	In EUR millions	% of total assets	In EUR millions
Interest free	33.3	2.4%	134.2	9.6%	(100.9)
Sight	5.2	0.4%	0.0	0.0%	5.2
Up to 1 month	52.4	3.7%	124.8	8.9%	(72.4)
1-3 months	73.2	5.2%	60.2	4.3%	13.0
3 months to 1 year	153.9	11.0%	17.8	1.3%	136.1
from 1 to 5 years	394.0	28.2%	312.8	22.4%	81.2
Over 5 years	687.1	49.1%	749.3	53.6%	(62.2)
Total	**1,399.1**	**100.0%**	**1,399.1**	**100.0%**	**0.0**

The sensitivity analysis for loans and deposits is based on the assumption that the market interest rate would change by 100 basis points (1% p.a.) which, according to management, represents the changes in the interest rates that were reasonably possible at that date. The impact on net interest income in the first year of change has also been calculated.

If the market interest rates increased by 100 basis points, the net interest income of the SID Bank Group would increase by EUR 902 thousand in 2008 (by EUR 687 thousand in 2007). The change would be reflected as higher revenues in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

The sensitivity analysis of the securities portfolio made by the SID Bank Group was based on a change in the interest rate. The results are the same as for SID Bank since the Prvi Faktor Group has no securities. The analysis shows how the fair values of securities or future cash flows of financial instruments would fluctuate due to the changes in market interest rates on the reporting date. The analysis does not include mutual funds which do not respond to the changes in interest rates to the same extent as debt financial instruments – bonds with fixed or variable interest rate.

The analysis separately calculates the responsiveness of bonds with variable and those with fixed interest rates given a change in the market interest rate. The calculation takes into account the average maturity of portfolio which was 3.13 years in 2007 (3.00 years in 2006). The analysis is based on the assumption of a change in the market interest rate by 100 basis points (1% p.a.).

In bonds with a variable interest rate the change in market interest rate by 100 basis points is reflected in an equal amount of the change in the coupon of such bonds. If the market interest rates increased by 100 basis points, the portfolio of SID Bank would increase by EUR 95 thousand in 2007 (by EUR 81 thousand in 2006), which represents an increase of 1% of the portfolio in real terms. The change would be reflected as a gain in the income statement. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

In bonds with a fixed interest rate, the increase in the market interest rate by 100 basis points would mean a reduction of the portfolio by 270 basis points or 2.7% in 2007. For 2007, this means reduction by EUR 844 thousand (2006: EUR 773 thousand). The total difference would be reflected as reduction directly in capital. If the market interest rates dropped by 100 basis points, the changes would be the same, in absolute terms, as in the case of increase, only reversed.

For the total portfolio of bonds, the increase in market interest rate by 100 basis points in 2007 would result in the reduction of the value of portfolio by EUR 748 thousand, of which EUR 844 thousand would be reflected directly in capital and as a gain in the amount of EUR 95 thousand in the income statement (for 2006: the change totalled EUR 693 thousand, of which EUR 773 thousand as a decrease in capital and a gain totalling EUR 81 thousand in the income statement). For the total portfolio of bonds, the decrease in market interest rate by 100 basis points in 2007 would result in the increase of the value of portfolio by EUR 749 thousand, of which EUR 844 thousand would be reflected directly in capital and as a the loss in the amount of EUR 95 thousand in the income statement (for 2006: the change totalled EUR 693 thousand, of which EUR 773 thousand as an increase in capital and as a loss totalling EUR 81 thousand in the income statement).

Operational risk

SID Bank assesses its operational risk based on the basic indicator approach for the calculation of capital adequacy for operational risk.