ANNUAL REPORT OF SID BANK AND THE SID BANK GROUP 2012

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I. BUSINESS REPORT

A word from the president of the management board

To our stakeholders,

As in previous years, the SID Bank performed well in 2012, despite the difficult situation in the Slovenian economy, however the business conditions had an impact on our activities. The Bank's solid performance, bearing in mind the economic recession, was evidence of our robustness and of our reliability to generate earnings and develop new products even in problematic circumstances.

In 2012 the Slovenian economy faced a further downturn in investment, a decline in household consumption and a contraction in government spending. The positive contribution made by net trade failed to compensate for the shrinkgae in domestic demand, which left the GDP to decline by 2.3%. For an open economy such as Slovenia's, alongside the rise in unemployment to 12% and the renewed decline in foreign investment this is an unsatisfactory indication for competitiveness and the ability to overcome the current recession.

In terms of forecasts for the economic environment and the implementation of our strategy, the SID Bank has reduced its exceptionally high long-term growth, and recorded growth of just 1.5% in total assets to EUR 4.1 billion during the course of last year. Here we acted in accordance with the market needs of the economy, although we were unable to mitigate the adverse developments in the Slovenian economy to the extent of the impact made in previous years.

Contraction in almost all sectors of the economy continued throughout 2012 and was reflected in our lending operations, and above all in our insurance segment. The main factor was the deterioration in the Slovenian banking system, which is the most important financial intermediary. Almost all Slovenian banks underwent significant downgradings last year. Their total assets contracted continuously, by a total of more than EUR 3 billion during the year to EUR 46 billion. The banking sector's credit portfolio recorded a notable decline in lending to non-financial corporations. The number of loans to NFCs was down 10.3% in year-on-year terms. At the same time the banks were mostly occupied with problematic, non-developmental investments, the proportion of bad claims in the banking system exceeding 14%, while the stock of impairments and provisions increased by EUR 1.6 billion in 2012 to EUR 4 billion. Interest income declined by 13%, all of which was reflected in a loss before taxation of EUR 769 million across the banking system, and the virtual breakdown of the interbank market. These developments significantly increased the credit risk faced by Slovenian banks. In our direct corporate financing, the same factors caused a reduction in corporate lending opportunities, as a result of which the stock of loans declined by 7%. In addition, corporate demand was primarily for refinancing and working capital, and not for investment or development, which are our primary tasks. It should be noted that the credit crunch suffered by Slovenian firms last year was primarily the result of a capital crunch caused by excessive indebtedness and a chronic lack of capital.

Despite the negative trends mentioned above, the SID Bank used its financing and insurance products to continue its promotion of the developmental parts of the Slovenian economy. As a result of the aforementioned economic and banking situation, interest rates in the Slovenian financial system rose, in contrast to their overall fall in the euro area, while loan maturities shortened. One of our main tasks was therefore to provide long-term development financing to the corporate sector at favourable terms.

The most noted product last year was the financial engineering mechanism for promoting technological development projects in the corporate sector as part of the promotional-development platform set up in previous years in conjunction with the Ministry of Economic

Development and Technology. With this product the Bank supported 15 firms and several of their technological development projects in a total value of almost EUR 100 million. A special venture credit fund for technological R&D projects was created for this specific higher-risk form of financing.

In 2012 we directly and indirectly financed more than 1,000 firms, of which approximately 800 were SMEs, within the framework of existing environmental protection and energy efficiency programmes, programmes to develop economic competitiveness, internationalisation programmes and programmes to develop the knowledge society. A total of EUR 765 million was earmarked for these firms, while the eligible costs of all the investments that we financed totalled more than EUR 1.1 billion. In the financing of international business transactions in 2012, our financial and insurance products helped more than 450 firms to establish a presence on international markets, as despite undergoing a slowdown exports offered the only basis for economic development, which was promoted as part of the development of economic competitiveness. Last year the financing of infrastructure and environment projects was also adjusted to the market situation, whereas local government projects were eligible for support in the form of direct financing with a maturity of 20 years.

The aforementioned adverse economic situation also brought a decline of 22% in insurance operations for non-marketable risks on behalf of and for the account of the state. The volume of business amounted to EUR 942 million. Alongside the economic recession, the main factors in the decline in operations were the collapse of certain construction and engineering firms that in previous years had carried out investment work, and the cancellation of insurance of investments because of firms' crisis measures and the general austerity measures. Nonetheless, we issued more insurance policies than in the previous year, achieved a positive technical result for the account of the state, and increased contingency reserves to EUR 132 million.

In relation to risk management the SID Bank primarily managed, just as in previous years, credit risk and operational risk while minimising other risks, taking account of all the specifics of its promotional development tasks, both on its own behalf and on behalf of and for the account of the state. We also adjusted the risk management system to the change in the economic and regulatory conditions in a manner that ensures that the risk profile and the internal capital adequacy assessment process reflect the Bank's capacity to mitigate risks.

The quality of the credit portfolio decreased significantly, in line with the aforementioned trends in banking and the economy. Impairment and provisioning costs amounted to EUR 79 million, EUR 21 million of which related to the aforementioned venture credit fund for technological development loans. Regardless of the latter we were able to retain our capital strength, maintaining a capital adequacy of more than 14%, as in 2011, although there was an increase in the general risk level of assets as a result of the aforementioned adverse conditions for asset management.

The Bank's liquidity remained high in 2012, as was our refinancing capacity, although the first signs of the recession were already noticed. Our borrowing felt the consequences of Slovenia's sovereign downgrading last year, which had a direct impact on the costs of borrowing on international markets. In contrast to previous years, when eurobonds were regularly issued, we borrowed from the ECB in 2012 via its 3-year LTROs, and then issued a short-term note with a nominal value of EUR 210 million in a private placement at the end of the year.

Despite the adverse trends, the statement of financial position was within the planned framework, as total assets increased by approximately 2%, and there was no significant change in the asset and liability structure. The ratio of direct financing (20%) to indirect financing via banks (80%) remained at the level of the previous year, while total financing amounted to EUR 3.3 billion. The income statement was also within the planned framework, as net interest income increased by 15.7% to EUR 63 million and net non-interest income recorded growth of 688% from gains on financial assets and liabilities, largely as a result of the revaluation of the liabilities of the aforementioned loan fund to the Ministry of Economic Development and Technology. Costs amounted to less than those forecast in the plan, and showed signs of effective cost management and asset management, the cost-to-income ratio namely fell from 13.1% in 2011 to 8.7% in 2012. Profit before tax amounted to EUR 5.8 million, while net profit amounted to EUR 5 million.

I would also like to pay special tribute to all of our staff, who worked to adapt our internal and external behaviour to the changes in the environment. Thus instead of quantitative external growth, 2012 was a year of significant qualitative internal growth and even better risk management by means of upgraded business processes and products, and computerisation (the electronic business application project). In this way we diversified our previous business model, thereby reducing certain risks. In a stable environment this will allow the SID Bank to undergo further high-quality development, enabling it to continue promoting job creation and increasing the added value and competitiveness of the economy and thus sustainable development.

The SID Bank Group also performed well, in line with the planned targets. SID – Prva kreditna zavarovalnica was successful, recording a net profit of EUR 2.7 million, despite operating in a very uncertain environment. This was also true of Prvi faktor, whose net profit of EUR 600 thousand was mostly generated in the tough markets of south-eastern Europe, where Pro Kolekt and the CMSR likewise did most of their business. Under the circumstances, this level of performance by all the companies of the Group was a solid achievement.

Given the challenges of the environment, we can be very proud of the majority of our achievements in 2012. We are not proud merely of the created profit and earnings, but of our continual growth, our job creation, and all that we have created and achieved in recent years in tough conditions. The SID Bank Group's performance is not measured solely by its good economic results, but also by its achievement of various environmental and social effects in keeping with its mission of sustainability. The SID Bank measures these effects by means of the independent evaluation of its activities. The last evaluation for 2007-2011 revealed that more than 5,500 firms that received our financing and insurance generated almost EUR 45 billion of additional sales, EUR 18 million of additional GDP, EUR 20 billion of additional exports and 40,000 new jobs, as well as preserving 80,000 other jobs. In addition, our financing of development projects helped produce over 200 technological innovations and patents, leading to reductions in CO_2 emissions of roughly five million tonnes a year. The added value of our financial services lies primarily in the diversity of the financial resources and their long-term maturities and lower costs, or in equalisation with the conditions enjoyed by global competitors. We always pass this added value on to the final beneficiary in the economy, as only in this way can we contribute to the sustainable development of the Slovenian economy.

The financial and economic crisis has given the Bank a special role and position in society. The SID Bank approaches its role and mission of working in market gaps for the sustainable development of Slovenia with great responsibility and commitment. We are convinced that our path of action is the most fitting, and that it brings added value to all stakeholders, from business, owners and commerce, to staff and society at large.

The outlook for the Slovenian economy in 2013 remains negative, for which reason we see significant risk of volatility in our environment, be it of an economic or socio-political nature. There has been no significant shift from non-refundable to refundable forms of financing for the economy, or to European financial engineering instruments, which given the current constraints on the fiscal position is vital for financing the development of the Slovenian economy. The SID

Bank is well prepared to manage these risks, and to exploit any opportunity that sents itself at this volatile yet significant time. We can, however, only be sustainably successful if we enjoy the confidence of all stakeholders, business in particular. This confidence must be earned and strengthened anew each day. At the SID Bank we therefore work with a sober awareness of what we have achieved in the past, and what we intend to prove in the future. I am convinced that we will be flexible and creative enough to reach our objectives.

I would like to thank all stakeholders for their loyalty and support of SID Bank thus far.

Sibil Svilan, M.Sc.

Supervisory board report on the review and approval of the Annual report of SID Bank and the SID Bank Group 2012

In 2012 the performance of SID banka d.d, Ljubljana and the SID Banka Group was monitored by the supervisory board in two different compositions: from 1 January to 5 April it comprised Andreja Kert (president), Samo Hribar Milič (deputy-president), Dr Aleš Berk Skok, Dr Marko Jaklič, Gregor Kastelic, Dr Peter Kraljič and Hugo Bosio, while from 5 April it comprised Matej Runjak (president), Janez Tomšič (deputy-president), Marjan Divjak, Štefan Grosar, Martin Jakše, Robert Ličen and Milan Matos.

The supervisory board regularly monitored and supervised the Bank's performance from the point of view of the attainment of its strategic, business and financial objectives, in accordance with its own rules of procedure and the Bank's articles of association, upholding the supervisory board powers and responsibilities stipulated by law in so doing.

Expert support was provided for the supervisory board's work by the audit committee, which discussed the relevant issues and drew up positions in the areas of accounting and financial information, risk management and the Bank's risk profile, internal and external auditing, and the functioning of internal controls in particular.

The remuneration and HR committee provided the supervisory board with expert support in 2012 in the discussion of matters in connection with the remuneration of external members of the supervisory board committees and in the discussion of issues in connection with the management board, such as the adoption of rules for concluding employment contracts with members of the management board and the evaluation of the management board's work.

In 2012 the supervisory board held ten ordinary sessions and three correspondence sessions, at which it discussed the annual and interim reports on the performance of the Bank and the affiliates of the SID Banka Group, internal audit reports, reports by the compliance management department and other departments at the Bank, the assessment of the Bank's risk profile, and other general and specific matters relating to the Bank's operations, and also made decisions on transactions subject to its authority.

The major issues discussed and/or decided on by the supervisory board in 2012 were:

- the annual report for 2011 with the auditor's report, and the proposal for the use of the distributable profit for 2011;
- the Bank's action strategy for 2013-2015 and the realisation of the strategic objectives in 2012;
- the annual operational plan and financial plan for 2013;
- the internal audit department's plan of work for 2013 and strategic plan of work for 2013 and 2014, the annual internal audit report for 2011 and the quarterly reports by the internal audit department;
- the compliance management reports and programme of work
- risk management bylaws and the assessment of the Bank's risk profile for 2012
- an evaluation of SID banka activities between 2007 and 2010
- the execution of the Bank's borrowing transactions
- policy in connection with the ownership of the affiliates in the SID Banka Group.

In its monitoring and supervision of the Bank's management and operations, the supervisory board obtained all the requisite information, based on which it was able to regularly assess the performance and work of the management board and to make decisions subject to its authority.

In its session of 10 April 2013 the supervisory board discussed and reviewed the annual report of SID banka d.d., Ljubljana and the SID Banka Group for 2012, and the proposal for the use of the distributable profit for 2012 submitted by the management board. The supervisory board also discussed the independent auditor's report, in which KPMG Slovenija, podjetje za revidiranje, d.o.o. issued an unqualified opinion of the financial statements of SID banka d.d., Ljubljana and the SID Banka Group for 2012. In the opinion of the auditor, the financial statements present in all materially significant aspects a true and fair picture of the financial position of SID banka d.d., Ljubljana as at 31 December 2012 and its income and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU, and the information in the business report fully accords with the audited financial statements.

The annual report for 2012, including the independent auditor's report, was discussed by the audit committee, the compilation of the annual report was assessed as satisfactory, and the annual report was submitted to the supervisory board for approval.

The supervisory board had no reservations or comments with regard to the report by KPMG Slovenija, podjetje za revidiranje, d.o.o.

After reviewing the annual report of SID banka d.d., Ljubljana and the SID Banka Group for 2012, the supervisory board had no reservations or comments, and approved the report unanimously.

Monika Pintar-Mesarič
president of the supervisory board

1. Major financial data and performance indicators of SID Bank and the SID Bank Group

	SID Bank			SID Bank Group		
EUR thousands	2012	2011	2010	2012	2011	2010
Statement of financial position						
Total assets	4,088,662	4,029,216	3,895,541	4,258,813	4,219,093	4,086,080
Borrowings from banks	1,924,619	1,966,530	2,023,693	2,030,232	2,091,001	2,143,572
Deposits by non-banking sectors	5	5	5	5	5	5
Shareholder equity	340,224	332,007	327,816	363,175	352,439	344,855
Loans to banks	3,031,156	2,997,154	2,955,894	3,057,451	3,018,972	2,976,328
Loans to non-banking sectors	649,294	701,410	796,980	738,831	810,720	913,201
Impairments of financial assets measured at amortised cost and provisions for off-balance-sheet liabilities	194,944	120,165	77,304	212,008	136,917	90,549
Off-balance sheet items	1,185,531	1,134,900	802,473	1.186.046	1,136,856	803,798
Income statement						
Net interest income	63,142	54,372	40,149	67,074	60,235	44,875
Net non-interest income	30,358	3,852	4,322	37,986	12,471	11,625
- of which net income from insurance operations	-	-	-	4,933	7,274	3,554
Labour costs, general and administrative costs	(7,585)	(7,017)	(6,101)	(14,116)	(13,258)	(11,582)
Amortisation and depreciation	(575)	(588)	(616)	(1,009)	(930)	(848)
Impairments and provisioning	(79,478)	(43,131)	(30,576)	(80,877)	(44,347)	(29,649)
- of which change in liabilities from insurance contracts	-	-	-	873	2,114	7,465
Pre-tax profit	5,862	7,488	7,178	9,058	14,171	14,421
Corporate income tax	(821)	(1,034)	(1,452)	(2,235)	(3,108)	(3,272)
Net profit for the financial year	5,041	6,454	5,726	6,823	11,063	11,149
Shares						
- number of shareholders	1	1	1			
- number of shares	3,121,741	3,121,741	3,121,741			
- nominal value of one share, EUR	96.10	96.10	96.10			
- book value of one share, EUR	109.63	106.99	105.63			
Headcount as at 31 December[1]	124	112	94	351	331	303
International credit rating (Moody's) as at 31 December	Baa2	A1	Aa2			

1 The headcount for the SID Bank Group includes all employees at PKZ, the Prvi Faktor Group, the Pro Kolekt Group and the CMSR, in addition to the headcount at SID Bank.

Selected indicators[2]

	SID Bank			SID Bank Group		
(%)	2012	2011	2010	2012	2011	2010
Capital						
- overall capital adequacy (total capital ratio)[3]	14.23	14.35	13.53	13.83	13.78	13.08
Quality of assets in the statement of financial position and assumed commitments						
- impairments of financial assets measured at amortised cost and provisions for assumed commitments / rated on-balance-sheet and off-balance-sheet items	4.91	3.11	2.03	5.23	3.20	2.23
Profitability						
- interest margin	1.53	1.36	1.14	1.55	1.43	1.23
- financial intermediation margin[4]	2.27	1.46	1.27	2.43	1.73	1.78
- return on assets before tax	0.14	0.19	0.20	0.21	0.34	0.40
- return on equity before tax	1.72	2.23	2.20	2.51	4.02	4.25
- return on equity after tax	1.48	1.93	1.76	1.89	3.14	3.29
Operating costs						
- operating costs / average assets	0.20	0.19	0.19	0.35	0.34	0.34
- operating costs / net income	8.73	13.07	15.10	14.40	19.51	23.48

2 The indicators are calculated using Bank of Slovenia methodology.

3 The calculation of capital adequacy and the ratio of impairments to rated items for the SID Bank Group takes account of 50% of the assets of the Prvi Faktor Group (the SID Bank banking group) in addition to SID Bank itself.

4 The calculation of the financial intermediation margin for the SID Bank Group does not take account of PKZ's income from insurance operations.

2. About SID Bank and the SID Bank Group

2.1 About SID Bank

History and legal status

SID Bank was established in 1992 as Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana (hereinafter: SID) as a special private financial institution for insuring and financing Slovenian exports. SID's business activities were regulated by the Slovenian Export Finance and Insurance Company Act.

February 2004 saw the entry into force of the Insurance and Financing of International Commercial Transactions Act (hereinafter: the ZZFMGP), which regulates the system for insuring and financing international commercial transactions as instruments of national trade policy. The ZZFMGP stipulated that SID was to bring the insurance operations that it pursues on its own behalf and for its own account into line with the regulations governing insurance corporations by the end of 2004, and was to bring its non-insurance operations not regulated by the ZZFMGP into line with the regulations governing banking by the end of 2006.

SID established an insurance corporation on this legal basis, to which it transferred its portfolio of marketable insurance that had been provided on its own behalf and for its own account by the end of 2004. SID – Prva kreditna zavarovalnica d.d., Ljubljana is 100%-owned by SID and began trading on 1 January 2005.

SID obtained an authorisation to provide banking services and other financial services from the Bank of Slovenia in October 2006, and an order from Ljubljana District Court registering the change in business name to SID – Slovenska izvozna in razvojna Bank, d.d., Ljubljana (with an abbreviated name of SID Bank Inc., Ljubljana)[5] at the end of that year, before it began trading as a specialist bank on 1 January 2007.

On 21 June 2008 the Slovene Export and Development Bank Act (hereinafter: the ZSIRB) entered into force, and began to be applied on the day when the Republic of Slovenia (the Slovenian state) became the sole shareholder in SID Bank, i.e. 18 September 2008. The ZSIRB grants SID Bank two powers: it is authorised to act as Slovenia's specialist promotional, export and development bank in the pursuit of activities under the ZSIRB, and is the authorised institution for all transactions under the ZZFMGP.

Article 13 of the ZSIRB also defines the state's responsibility for SID Bank's liabilities, stipulating that as the sole shareholder the Republic of Slovenia bears irrevocable and unlimited liability for SID Bank's liabilities from transactions undertaken in its pursuit of the activities specified in Articles 11 and 12 of the aforementioned law. If SID Bank fails to settle a past-due liability to a creditor at the latter's written request, the Republic of Slovenia must settle the liability at the creditor's request without delay. This allows SID Bank to borrow on the financial markets without needing to obtain a government guarantee for each transaction.

[5] Henceforth in the annual report any use of "SID Bank" or "the Bank" refers to SID Bank, Inc., Ljubljana, irrespective of the time and the change in business name, while the SID Bank Group may be referred to as "the SID Bank Group" or simply "the Group".

The Act Amending the Banking Act[6] further refined the status of SID Bank, expressly stipulating that SID Bank is authorised as Slovenia's promotional, export and development bank, and is not allowed to accept deposits from the public. It further laid down that any authorisations issued in connection with SID Bank on the basis of the law governing banking remain in force, with the exception of those parts relating to the acceptance of deposits from the public. It also stipulates that other laws applying to banks also apply to SID Bank, unless stipulated otherwise by law.

The legal status of SID Bank was also defined in 2010 because of European banking legislation, when the European Commission adopted Commission Directive 2010/16/EU of 9 March 2010 amending Directive 2006/48/EC of the European Parliament and of the Council by which it confirmed, in accordance with the opinion of the European Banking Committee, that SID Bank is an institution involved in specific activities in the public interest and is thus eligible for inclusion on the list of institutions excluded from the scope of application of Directive 2006/48/EC pursuant to Article 2 of that directive. As stated, SID Bank carries out incentive and development tasks and provides financial services in areas where market gaps can arise or have been identified, including financial services, counselling and education in areas such as international trade and international cooperation, economic incentives for SMEs, research and development, regional development, and commercial and public infrastructure.

Role and purpose

Given the fundamental laws governing the methods of development activity and actions to identify market gaps and other (allowed) interventions and aid, and the role of the state and its institutions in meeting the objectives of the national development strategy, SID Bank's role, purpose and tasks are to promote the following, in the general economic and public interest, primarily by means of appropriate financial instruments and services:

- sustainable and balanced economic development in Slovenia, through the financing and insurance of international business transactions;
- research and innovation, and other forms of economic development activity that increase the competitiveness and excellence of businesses in Slovenia;
- close-to-nature environmental development with a high degree of protection for the environment and habitat, public infrastructure and utilities, and energy efficiency in particular;
- social progress, education and employment in Slovenia, and in the rest of the world through international development cooperation;
- other forms of economic activity that contribute to growth, development and prosperity, where in keeping with its strategic guidelines the management and supervisory bodies of SID Bank will meet the requirements of the users of these services and will provide and continually improve these services by introducing and implementing systems for the comprehensive assessment and management of specific development risks, quality management systems, and corporate and social responsibility.

The ZSIRB also gives SID Bank powers in connection with EU funds and other funding from the EU budget. On the basis of contracts concluded with individual ministries and other national bodies or with other persons SID Bank may also extend various types of development funding and provide various programmes of national measures and other programmes and projects in line with EU rules, and may work with various European financial institutions in various forms in so doing.

In providing its services SID Bank may use all financial instruments available under EU and Slovenian legislation, such as loans, guarantees and other forms of surety, purchase of receivables, finance leasing, concessionary loans and other instruments of international development

6 Official Gazette of the Republic of Slovenia No. 79/10 of 8 October 2010

cooperation, other forms of financing, capital investments and other methods for taking up risks, and integrate these into development and promotional financing programmes.

The Act Amending the Public Finance Act[7] stipulated that SID Bank may be awarded budget funds for promoting technological development projects directly, without a tendering process.

Banking services

In accordance with its aforementioned role, purpose and tasks, SID Bank primarily provides financial services within the framework of authorisations issued by the Bank of Slovenia. The main service is the provision of loans, which largely flow via banks, in cooperation with other commercial banks in bank syndicates in certain instances, but the Bank also lends directly to final beneficiaries to a lesser extent.

The Bank provides its financial services with regard to identified market gaps, carrying out developmental and promotional tasks of a financial nature and meeting the objectives of long-term development policy in the following areas (according to the ZSIRB):
- the development of small and medium-size enterprises (SMEs) and entrepreneurship;
- research, development and innovation (RDI);
- environmental protection, energy efficiency and climate change;
- international business transactions and international economic cooperation;
- regional development;
- economic and public infrastructure.

As at 31 December 2012 SID Bank held a Bank of Slovenia authorisation to provide the following mutually recognised financial services under Article 10 of the ZBan-1:
- acceptance of deposits from informed persons;
- provision of loans, including:
  - mortgage loans,
  - purchase of receivables with or without recourse (factoring),
  - financing of commercial transactions, including export financing based on the purchase at a discount without recourse of non-current non-past-due receivables collateralised with a financial instrument (forfaiting);
- issue of guarantees and other sureties;
- trading on own account or for the account of clients:
  - in foreign legal tender, including currency-exchange transactions,
  - in futures and options,
  - in currency and interest rate financial instruments;
- trading on own account:
  - in money-market instruments;
- credit rating services: collection, analysis and dissemination of information about creditworthiness.

[7] ZJF-F, Official Gazette of the Republic of Slovenia No. 107/10 of 29 December 2010.

SID Bank's activities under the Republic of Slovenia's authorisation

SID Bank provides insurance for international business transactions against non-marketable risks, and carries out an interest rate equalisation programme on behalf of and for the account of the Republic of Slovenia, as an agent of the state. The requisite funding for the effective provision of insurance operations under the ZZFMGP is provided to SID Bank by the state in the form of contingency reserves, which are used to settle liabilities to the insured (claims payouts) and to cover losses on these operations. If the claims cannot be settled from the aforementioned reserves, the funding for payouts is provided by the state. Contingency reserves are created primarily from premiums, fees and commissions, recourse from paid claims and other income generated by SID Bank from insurance and reinsurance against non-marketable risks.

Under the Republic of Slovenia Guarantee Scheme Act,[8] SID Bank was authorised to provide a guarantee scheme for corporates on behalf of and for the account of the state. The law was adopted as part of the EU stimulus package, and was not renewed after its expiry at the end of 2010. SID Bank's activities now focus on the processing of claims for the payout of guarantees, the exercise of recourse claims, and monitoring of the dedicated use of loans and other prescribed requirements.

Under the Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia,[9] in 2009 SID Bank was authorised to provide a guarantee scheme for private individuals on behalf of and for the account of the state. The legal deadline for the issue of government guarantees under this law was the end of 2010. SID Bank's activities now focus on the processing of claims for the payout of guarantees, the exercise of recourse claims, and monitoring of the dedicated use of loans and other prescribed requirements.

Under the Republic of Slovenia Guarantees for Financial Investments by Companies Act,[10] SID Bank is authorised to conclude contracts in connection with the issue of guarantees on behalf of and for the account of the state, and to carry out other operations under this act.

Under the Act Amending the Environmental Protection Act,[11] in 2010 SID Bank was authorised to act as a state auctioneer at emission allowance auctions and to carry out the Kyoto units and emission allowances programme on behalf of and for the account of the state, and any related transactions.

SID Bank's activities for the account of the state are described in detail in Section 6.5.

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8 Official Gazette of the Republic of Slovenia No. 33/09 of 30 April 2009 and Official Gazette of the Republic of Slovenia No 42/09 of 5 June 2009.

9 Official Gazette of the Republic of Slovenia No. 59/09 of 30 July 2009.

10 Official Gazette of the Republic of Slovenia No. 43/10 of 31 May 2010.

11 Official Gazette of the Republic of Slovenia No. 108/2009 of 28 December 2009.

Share capital

The Bank's share capital is divided into 3,121,741 no-par-value shares. These are ordinary registered shares, issued in dematerialised form. The central share register and all procedures for trading the shares are administered at the Central Securities Clearing Corporation in Ljubljana.

There were no changes to the share capital in 2012, which amounted to EUR 300 million as at 31 December 2012.

On 5 July 2012 the SID Bank general meeting passed a resolution allocating the distributable profit for 2011 of EUR 3,065,827.55 to other profit reserves.

Total shareholder equity amounted to EUR 340.2 million as at 31 December 2012. As at 31 December 2012 the audited book value of one share stood at EUR 109.63, compared with EUR 106.99 as at 31 December 2011.

There are no constraints on shareholder voting rights: each SID Bank no-par-value share entitles its holder to one vote. The financial rights attached to shares are not separated from the ownership of the shares. Under Article 4 of the ZSIRB, the Republic of Slovenia is the sole shareholder in SID Bank.

Shareholders as at 31 December 2012	Number of shares	Holding of share capital (%)
Republic of Slovenia	3,103,296	99.4
SID Bank (own shares)	18,445	0.6
Total	3,121,741	100

Company information

Business name	SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana
Registered office	Ulica Josipine Turnograjske 6, 1000 Ljubljana
Registration number	5665493
Tax number	82155135
VAT identification number	SI82155135
Transaction account	0100 0000 3800 058
SWIFT	SIDRSI22
Tel	+ 386 1 200 75 00
Fax	+ 386 1 200 75 75
Email	info@sid.si
Internet	http://www.sid.si

2.2 About the SID Bank Group

SID Bank Group

As at 31 December 2012 the SID Bank comprised:

Company	Role	Holding of SID Bank (%)
SID Bank Inc., Ljubljana	Controlling bank	-
SID – Prva kreditna zavarovalnica d.d., Ljubljana	Subsidiary	100
Pro Kolekt, družba za izterjavo, d.o.o.	Subsidiary	100
Prvi faktor, faktoring družba d.o.o.	Joint venture	50
Centre for International Cooperation and Development (CMSR)	Joint foundation	-

The SID Bank Group's consolidated financial statements include SID – Prva kreditna zavarovalnica d.d., Ljubljana under the full consolidation method, and the Prvi Faktor Group under the proportionate consolidation method. Given its insignificant impact on the financial position and profit or loss of the SID Bank Group, the Pro Kolekt Group is not included in consolidation. Pro Kolekt and the CMSR are covered in Section 6.6.

About the companies included in consolidation

SID – Prva kreditna zavarovalnica d.d., Ljubljana

SID established SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter: PKZ) as the sole owner in 2004. PKZ was entered in the companies register on 31 December 2004, and commenced its insurance operations on 1 January 2005. On this date short-term insurance contracts that had been concluded by SID for its own account by the end of 2004 were transferred to PKZ.

The company's share capital as at 31 December 2012 stood at EUR 8.4 million, and was equal to the nominal value of SID Bank's interest in the company.

PKZ provides insurance for current receivables from private-sector customers (usually suppliers' receivables with a maturity of up to 180 days, or exceptionally up to 1 year). The company provides insurance against commercial and non-commercial risks for companies selling goods and/or services inside and outside Slovenia on deferred payment, usually on open account. The contracts are renewable, and generally cover the policyholders' entire turnover on foreign and/or domestic markets.

In addition to the insurance of the full sales of companies of varying size, PKZ's services also include insurance of pre-supply risks, factoring insurance and individual insurance operations. Insurance of pre-supply risks comprises additional coverage expanded to the production period. Factoring insurance comprises coverage of risks in the purchase of receivables from factoring companies, and is tailored very specifically to this activity with regard to the nature of the transaction. Individual insurance operations cover the monitoring of individual policies, insurance for projects of up to 2 years' duration, and insurance for engineering deals. The company also provides indirect insurance operations: it uses facultative quota reinsurance to cover credit insurance provided by export credit agencies. The indirect insurance operations are identical to direct insurance operations, and were negligible in 2012 compared with the amount of direct insurance.

The company is headed by a two-person management board comprising Mr Ladislav Artnik (the president) and Dr Rasto Hartman. The supervisory board comprises Mr Jožef Bradeško (the president) and Mr Leon Lebar (the deputy-president) from SID Bank, and Mr Ivan Štraus as a workers' representative.

Prvi faktor, faktoring družba d.o.o.

Prvi faktor, faktoring družba d.o.o. (hereinafter: Prvi faktor, Ljubljana) is the leading factoring company in Slovenia.

SID acquired a 50% interest in the nominal capital and half of the voting rights of Prvi faktor, Ljubljana in 2002. The other partner is Nova Ljubljanska banka d.d., Ljubljana. The nominal value of SID Bank's interest in the company stood at EUR 1.6 million as at 31 December 2012.

The company's principal line of business is factoring for clients established inside and outside Slovenia in connection with receivables from the sale of goods and services. The company primarily provides the following services:
- the purchase, or takeover in return for consideration, of receivables from the sale of goods and services with or without payment risk;
- financing of assumed receivables;
- administrative management of assumed receivables;
- redemption and recovery of assumed receivables;
- trading in assumed receivables;
- intermediation and brokerage of factoring transactions inside and outside Slovenia.

Prvi faktor, Ljubljana is the founder and 100% owner of four companies:
- Prvi faktor, društvo s ograničenom odgovornošču za faktoring, Zagreb, Croatia (hereinafter: Prvi faktor, Zagreb);
- Prvi faktor – faktoring, društvo s ograničenom odgovornošču, Belgrade, Serbia (hereinafter: Prvi faktor, Belgrade);
- Prvi faktor, društvo sa ograničenom odgovornošču za finansijski inžinjering, Sarajevo, Bosnia and Herzegovina (hereinafter: Prvi faktor, Sarajevo);
- Prvi faktor d.o.o.e.l., Skopje (hereinafter: Prvi faktor, Skopje).

The company's governance bodies are the general meeting and the director. SID Bank was represented at the general meeting in 2012 by Ms Barbara Bračko and Mr Leon Lebar. The company directors are Mr Ernest Ribič and Mr Matej Špragar.

Information about the individual companies is given below.

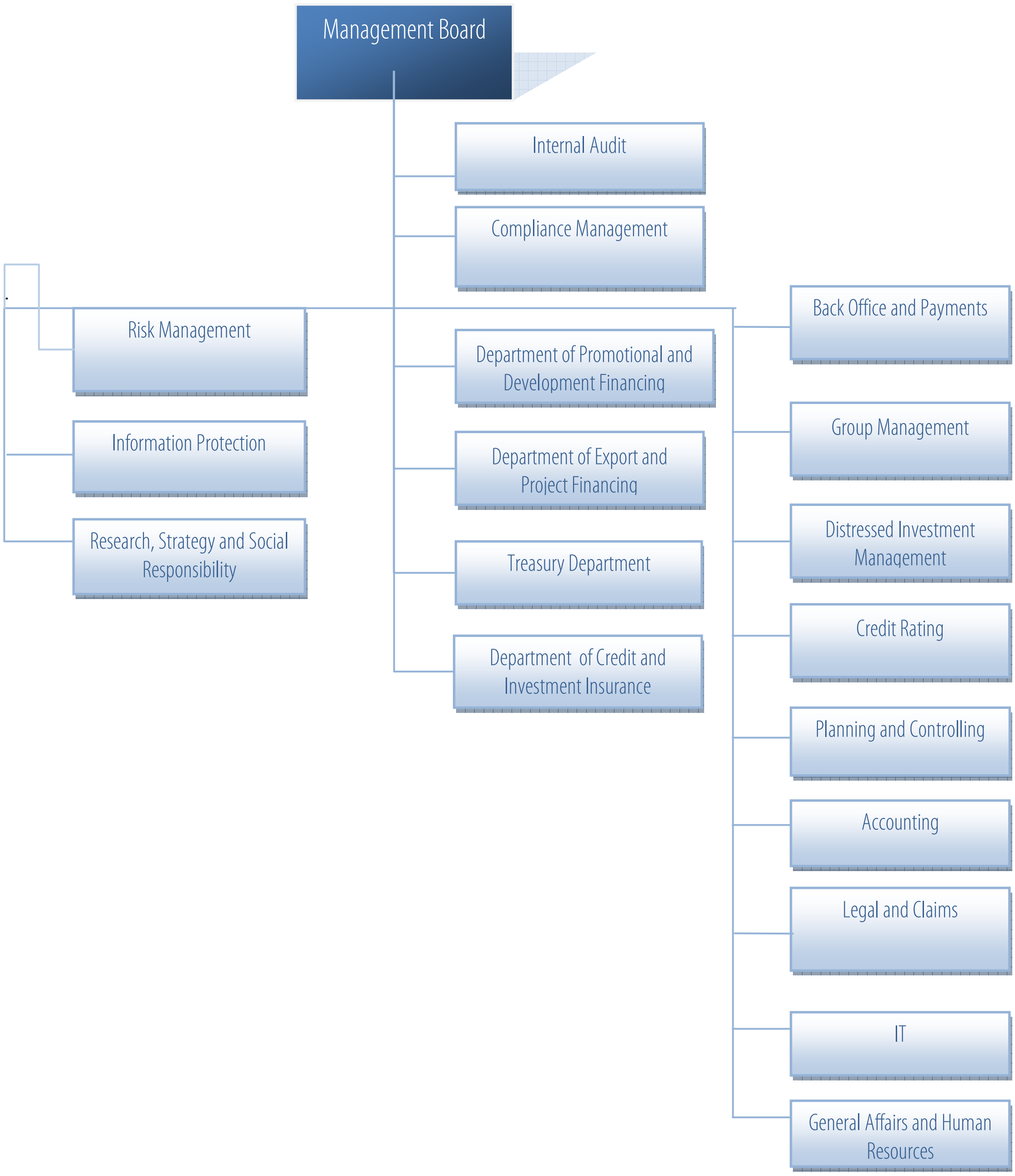
	Prvi faktor, Zagreb	Prvi faktor, Belgrade	Prvi faktor, Sarajevo	Prvi faktor, Skopje
Line of business	Factoring	Factoring	Other financial intermediation	Company not trading
Established	17 December 2003	24 February 2005	27 February 2006	2006
Nominal capital	EUR 2.6 million	EUR 2.7 million	EUR 1.5 million	EUR 5 thousand
Director	Tomaž Kačar	Jelena Tanasković	Đenan Bogdanić	Ernest Ribič
Make-up of general meeting	Representatives of Prvi faktor, Ljubljana	Representatives of Prvi faktor, Ljubljana	Representatives of Prvi faktor, Ljubljana	Representatives of Prvi faktor, Ljubljana

The nominal value of Prvi faktor, Ljubljana's participating interests in individual companies in the Prvi Faktor Group as at 31 December 2012 was equal to the nominal capital of the individual companies on that date, with the exception of Prvi faktor, Sarajevo, where the carrying amount of the investment is EUR 1 million as a result of impairment.

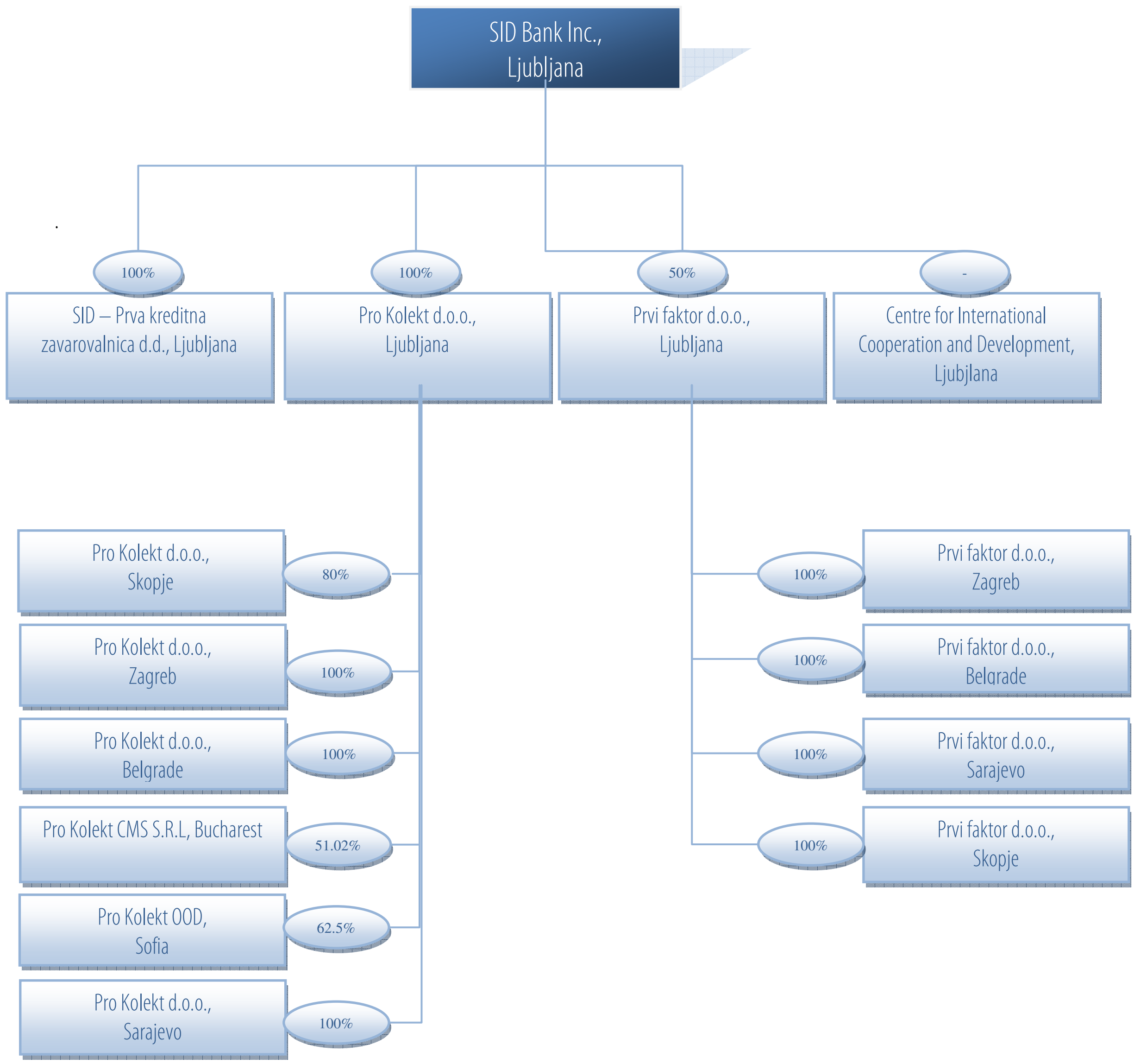
3. Governance of SID Bank

3.1. Organisational structure

Organisational structure of SID Bank as at 31 December 2012



Organisational structure of the SID Bank Group as at 31 December 2012



3.2. Corporate governance statement

Corporate Governance Code

As a public company, in the 2012 financial year SID Bank applied the Corporate Governance Code for Joint-Stock Companies (hereinafter: the Code), which was drafted and adopted in its updated form by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia on 8 December 2009. The Code is available at http://www.ljse.si/. At the end of 2011 the management board and supervisory board approved the Governance Policy, thus formally confirming the decision that the Corporate Governance Code for Companies with State Capital Investments, which was adopted by the Capital Assets Management Agency on 18 January 2011, would also be applied.

With regard to information about governance that exceeds the requirements of the Companies Act, the main focus is on regulations governing corporate governance at banks. The Banking Act (Title 2) and the Regulation on the diligence of members of the management and supervisory boards of banks and savings banks both contain provisions summarising the recommendations of the Code *mutatis mutandis*. Of further relevance is the ZSIRB, which contains special provisions on corporate governance, e.g. the make-up of the supervisory board. All the aforementioned regulations have been published in the Official Gazette of the Republic of Slovenia. Corporate governance also takes account of the articles of association (available at http://www.sid.si), the strategy and various policies adopted by the management and supervisory bodies.

The following recommendations of the Code are not applied in the corporate governance of SID Bank:

- Points 1 and 2 (Corporate governance framework): In contrast to commercial banks and other joint-stock companies, SID Bank's basic objective is not to maximise the company's value, but to provide promotional and developmental financial services and to carry out tasks aimed at maintaining or increasing the value of the equity without the objective of maximising profit (c.f. Article 9 of the ZSIRB and the articles of association).

- Points 4 and 5 (Relations between the company and the shareholders): The recommendations are applied *mutatis mutandis*, as this matter is regulated by law. The sole shareholder is the Republic of Slovenia (c.f. Article 4 of the ZSIRB), and the appointment of members of the supervisory board is regulated by law (Article 18 of the ZSIRB).

- Point 7 (Supervisory board): The procedure for appointing members of the supervisory board is carried out in accordance with the ZSIRB and other legal acts governing the appointment of persons to the supervisory bodies of companies under majority government ownership.

- Point 8 (Supervisory board) and point 17.1 (Independence and loyalty): Members of the supervisory board sign and disclose a statement containing all the requisite information to assess their independence in terms of the criteria stated in Appendix C of the Code, but the signed statements are not published on the Bank's website, as they contain confidential information that it requires on the basis of banking regulations.

Functioning and key powers of the general meeting

The Republic of Slovenia (the Slovenian state) has been the sole shareholder in SID Bank since September 2008.

The Bank's general meeting convenes at least once a year, after the end of the financial year, in accordance with the Companies Act.

The powers of the general meeting were exercised in 2012 by the Capital Assets Management Agency, and its representative with the relevant written authorisation. The entry into force of the Slovenian Sovereign Holding Company Act on 28 December 2012 abolished the CAMA. The management of the government-owned capital assets previously managed by the CAMA was taken over by Slovenska odškodninska družba, which is to be converted into the sovereign holding company under the aforementioned law.

In accordance with the ZSIRB the members of the supervisory board are appointed by the Slovenian government.

Make-up and functioning of management and supervisory bodies and their committees

The management and supervisory board are appointed according to regulations, although the additional conditions and procedures set out in Article 18 of the ZSIRB need to be taken into account. The Bank has a two-tier system of governance: it is managed by the management board, while its operations are supervised by the supervisory board.

SID Bank's supervisory board

The supervisory board monitors and supervises the management and operations of the Bank. It has seven members, who are appointed by the Slovenian government in accordance with the ZSIRB.

Members of the supervisory board are appointed for a term of five years. The supervisory board consisted of Ms Andreja Kert (president), Mr Samo Hribar Milič (deputy-president), Dr Aleš Berk Skok, Mr Hugo Bosio, Dr Marko Jaklič, Mr Gregor Kastelic and Dr Peter Kraljič until 5 April 2012. From 5 April 2012 the supervisory board consisted of Mr Matej Runjak (president), Mr Janez Tomšič (deputy-president), Mr Marjan Divjak, Mr Štefan Grosar, Mr Martin Jakše, Mr Robert Ličen and Mr Milan Matos.

The supervisory board operates on the basis of its rules of procedure, which set out in detail the principles, procedures and work methods, while its principal powers and responsibilities are set out by the Bank's articles of association and laws governing the Bank's operations, most notably the Companies Act, the Banking Act and the ZSIRB.

The supervisory board's role includes approving the Bank's strategic policy, reviewing the Bank's annual reports and other reports and formulating an opinion thereof, explaining to the general meeting its opinion of the annual report by the internal audit department and its opinion of the annual report by the management board, approving the Bank's annual report and the management board's proposal for the use of the distributable profit, and discussing any findings made in supervisory procedures by the Bank of Slovenia, tax inspectors and other supervisory authorities. In addition, the supervisory board is responsible for approving the management board in its determination of the Bank's business policy, the financial plan, the organisation of the system of internal controls and the internal audit department's annual programme of work. The supervisory board also provides guidance and consent to the Bank's policy for operating in accordance with development guidelines based on EU and Slovenian long-term development documents.

The supervisory board has established an audit committee, and a remuneration and HR committee as consultative bodies. Each committee's duties and responsibilities are set out by its own rules of procedure.

The supervisory board's audit committee

The audit committee is appointed by the supervisory board. Until 5 April 2012 the audit committee consisted of Mr Gregor Kastelic (chairman), Dr Aleš Berk Skok and Ms Blanka Vezjak. From 5 April 2012 the audit committee consisted of Mr Martin Jakše (chairman), Mr Marjan Divjak (deputy-chairman), Mr Robert Ličen and Ms Blanka Vezjak.

In connection with its powers of monitoring and supervision, the committee primarily discusses material relating to the Bank's annual and interim financial statements, the activities of the internal audit department, the organisation of the system of internal controls and any findings by supervisory authorities in procedures of supervision. The committee also participates in procedures to select an external auditor, and reviews and monitors the auditor's work and impartiality.

The audit committee also compiles an annual report of its work within 30 days of discussing the Bank's annual report.

Remuneration and HR committee

The remuneration and HR committee is a standing working body and consultative body of the supervisory board. The supervisory board appoints the chairman and deputy-chairman of the committee. Until 5 April 2012 the remuneration and HR committee consisted of Ms Andreja Kert (chairman), Mr Samo Hribar Milič, Mr Gregor Kastelic and Ms Alenka Stanič. Since 5 April 2012 the committee has consisted of Mr Matej Runjak (chairman), Mr Janez Tomšič (deputy-chairman), Mr Milan Matos and Ms Alenka Stanič.

The committee's duties and responsibilities relate to employee remuneration and the discussion of issues relating to the management board. Its main tasks are assessing whether the methodologies put in place are the basis for a remuneration system that encourages proper management of risks, capital and liquidity, reviewing the relevance of the general principles of remuneration policy and the level to which remuneration policy complies with the Bank's business policy over the long term, assessing and evaluating the work of the management board, and drawing up recommendations for the supervisory board in respect of the implementation of remuneration policy.,

International trade promotion commission

The government has appointed an international trade promotion commission to coordinate the actions of the relevant government bodies and other bodies and institutions in the implementation of the ZZFMGP, and to ensure the effective implementation of the insurance and financing of international trade and investment.

The commission decides on the Bank's proposals to conclude insurance transactions in excess of EUR 5 million, and has the power to rule on other matters related to risk management, such as approvals for:

- the policy of insurance operations in individual countries or groups of countries, which together with the limits on insurance already set out in the ZZFMGP act to limit potential claims;
- the formulation and conclusion of special insurance terms for individual insurance policies and other transactions;
- the management of the contingency reserves and the risks taken up in insurance operations;
- agreements and relations with financial institutions and other institutions;
- the reprogramming, recovery and liquidation of claims, and other transactions under government authorisation including an opinion thereon.

The international trade promotion commission regularly monitors the Bank's operations in areas regulated by the ZZFMGP, discussing performance reports and providing an opinion of the Bank's exercise of authorisations under the ZZFMGP for the Ministry of Finance.

In 2012 the commission consisted of Mr Marjan Hribar (chairman), Ms Sabina Koleša (deputy-chairman), Ms Monika Pintar Mesarič (until 4 October), Mr Matej Čepeljnik (from 4 October), Mr Janez Krevs, Mr Boris Sovič (until 24 May), Dr Stanislav Raščan (from 24 May) and Mr Jože Renar.

Management board

The Bank's operations are directed by the management board, which represents it in public and legal matters. The management board is appointed by the supervisory board for a term of five years, and may be reappointed. The management board is to have no more than three members. The number of board members is determined by the supervisory board.

The management board of SID Bank consists of the president Mr Sibil Svilan (M.Sc.) and Mr Jožef Bradeško.

The management board directs the Bank's operations independently and at its own liability. The actions of the management board are regulated by its rules of procedure. The management board generally sits in session on a weekly basis, where material concerning the Bank's operations is discussed.

The management board regularly briefs the supervisory board of the most important issues in the Bank's operations, on its business policy, its financial position and other significant issues relating to its performance and activity.

The management board may transfer certain decision-making rights to collective decision-making bodies such as the credit committee, the liquidity committee and the asset/liability committee.

Credit committee

The credit committee's principal main powers and responsibilities and its methods of work are set out in its rules of procedure. At its sessions the credit committee decides on approvals of investments and guarantees in line with SID Bank's business policy, on the classification of individual investments, on the raising of funding with a maturity of more than 1 year, on the treasury investment policy and on exposure limits for individual clients.

For transactions that SID Bank is concluding for the account of the Republic of Slovenia under the ZZFMGP, the committee makes decisions on matters including financing for international business transactions from the contingency reserves, and approves the policy for contingency reserve investments and the exposure limits for individual clients.

It also discusses reports relating to credit risk drawn up by the backoffice and payments department, the risk management department and the distressed investment management department. The credit committee had six members at the end of 2012.

Liquidity committee

The work of the liquidity committee is regulated by its rules of procedure, which sets out its powers, responsibilities and methods of work. The committee generally sits in weekly sessions to monitor the Bank's liquidity position, to monitor the fulfilment of Bank of Slovenia regulations and guidelines, and to put forward principles and guidelines in relation to the raising of funding and placement of assets on the money and capital markets, the utilisation of Bank of Slovenia and ECB instruments, the fulfilment of Bank of Slovenia regulations and guidelines, the administration of exchange rate and interest rate policy and the management of the portfolio of securities and other financial instruments. The liquidity committee had seven members at the end of 2012.

Asset liability committee

The asset/liability committee analyses the stock of, changes in and trends in the Bank's on-balance-sheet items, and formulates decisions to achieve a balance sheet structure that is in keeping with the Bank's business policy and that facilitates normal operations and the implementation of the Bank's plans.

The committee's powers and responsibilities include discussing the Bank's performance from the point of view of its commercial objectives, discussing the Bank's balance sheet structure with a view to credit risk and market risks, defining the content of the indicators used to monitor balance sheet structure, discussing reports on capital adequacy and the Bank's exposure to individual risks, discussing the Bank's draft business plan and proposing changes to the plan in the event of a significant change in business conditions.

The committee's work is regulated by its rules of procedure, which set out its powers and responsibilities. The committee meets in monthly sessions, and had 11 members at the end of 2012.

Main features of internal control systems and risk management in relation to the financial reporting procedure

Via bylaws the Bank has put in place various internal controls in relation to the financial reporting procedure, which are primarily implemented at the organisational units responsible for risk management, accounting, and planning and controlling. The functioning of internal controls and risk management at the Bank is subject to internal auditing, which is carried out by a dedicated organisational unit. In addition, in order to more effectively exercise its functions the supervisory board has established an audit committee, whose work focuses on financial reporting and risk management. Part of the system of internal controls at the Bank consists of legal compliance management, which is the responsibility of a dedicated organisational unit.

Compliance management

The compliance management department remained fully responsible for independent compliance management in 2012. The purpose of compliance management is to identify and assess the compliance risks to which the Bank is or could be exposed, i.e. the risk of legal or regulatory sanctions, significant financial losses or a loss of reputation as a result of the Bank's operations failing to comply with the relevant regulations and standards of good practice.

The compliance management department exercises its supervisory role by means of regular and extraordinary audits of operations from the point of view of compliance, focusing on those areas where analysis of the risk profile[12] suggests that the risk of non-compliance is highest. In conducting its audits the compliance management department works with the internal audit department to exchange information and findings to ensure that the two departments complement each other's activities instead of duplicating them.

Compliance management includes monitoring and reporting on compliance risk, and providing advice and training on the management of compliance risk. It also encompasses a supervisory role,

[12] The Bank's risk profile is drawn up in line with the internal risk profile assessment methodology, which is based on the Bank of Slovenia's risk assessment process (RAP) methodology.

particularly in the sense of regular reviews of the implementation of the internal control mechanisms introduced by the Bank to ensure compliance. As part of the Bank's system of internal controls, compliance management is one of the interconnected elements of a comprehensive, robust and reliable risk management system at the Bank.

Irrespective of the establishment and implementation of compliance management, the Bank's management board remains primarily responsible for managing compliance risk and for ensuring that the Bank's operations comply with regulations. By putting independent compliance management in place the management board has primarily met the required standards of diligence in accordance with banking regulations. In accordance with its bylaws all the Bank's employees are responsible for ensuring compliance, with regard to their role and level of responsibility, for which reason they are obliged to train themselves to identify and manage compliance risk. The heads of organisational units are also responsible for monitoring the realisation of compliance risk in their areas, and to report accordingly to the compliance management department and the management board.

The compliance management department issues a written report for every half-year, which is submitted to the management board and then to the supervisory board for discussion. The report encompasses a report of the work during the half-year just ended, the findings regarding the current state of compliance relative to the required state, any recommendations for the management board and a follow-up review of recommendations from previous periods.

Internal auditing

The internal audit department is an independent and impartial organisational unit that is separate from the Bank's other organisational units in terms of functioning and organisation, and is answerable directly to the management board. Internal auditing is conducted in accordance with the international standards and principles for the professional practice of internal auditing, and the code of ethics of internal auditors. In addition to the aforementioned standards it also upholds the provisions of the Banking Act relating to internal auditing rules. The functioning of internal auditing is based on the internal audit charter, while a more detailed description of internal audit procedures is given in the internal audit department's rules of procedure and the internal auditing manual.

The internal audit department plans its activities in a strategic plan defining the content and focus of internal auditing work for a period of two years, and in an annual plan of work. The annual and strategic plans are drawn up on the basis of the Bank's risk profile, and include audits based on the regulator's requirements from mandatory auditing of individual areas of the Bank's operations. The two plans are adopted by the management board, subject to the supervisory board's approval. In addition to internal auditing, the internal audit department provides advice and coordinates reporting to external supervisory institutions.

The internal audit department reports on its work to the management board, the supervisory board and the audit committee, which monitor the department's activities on the basis of the quarterly reports and annual report on the department's work, and the quarterly reports on the implementation of recommendations. The management board also monitors the work of the internal audit department when discussing individual reports of internal audits.

In 2012 the internal audit department was staffed by two internal auditors with current licensing from the Slovenian Institute of Auditors as a certified internal auditor and a certified auditor. Because of a lengthy absence on the part of one of the auditors, in 2012 the internal audit work was conducted by one staff member alone. To conduct audits of information technology and systems in 2012 the department employed the services of external contractors (certified IT auditors) with the requisite expertise in conducting these types of audit.

In 2012 the internal audit department completed four audits planned for 2011, and conducted eight regular audits. One ad hoc audit was also conducted.

The main areas audited were:
- the methodology and procedures for rating banks;
- the system for managing distressed investments;
- the system for assessing the Bank's internal capital requirements;
- the compliance of the management of national contingency reserves with legislation and bylaws;
- the compliance and quality of the business continuity plan;
- the remuneration system;
- the use of common codes to ensure the integrity, security and availability of data;
- the implementation of procedures for using bank loans as Eurosystem collateral.

In its audits the internal audit department focused on the assessment of the Bank's business processes from the point of view of thoroughness, transparency, orderliness, the level of documentation and the establishment of effective internal controls for risk management.

A major part of the internal audit department's work was monitoring the realisation of recommendations submitted as part of previous internal audits and audits conducted previously by the external auditor.

4. Strategy of SID Bank

In accordance with the established strategic planning process, which envisages a "sliding" strategy (strategic period (start and end) is each year prolonged for another year), SID Bank's strategic plans were reviewed at the end of 2012. SID Bank's action strategy for 2013-2015 was adopted on this basis.

The key external circumstances taken into account by SID Bank when revising its strategy were the malfunctioning of the financial markets and Slovenia's fiscal problems on one side, and the implementation of European crisis measures and the mounting problems in the Slovenian economy and banking system on the other side. The key internal factors encouraging a revision of the action strategy were the elimination of weaknesses in the business model based on the assumption of functioning financial markets, an increase in activity in connection with Slovenian corporate sector restructuring, and an overhaul of the lending process and a corresponding reorganisation. Another integral part of the action strategy is the risk profile, via which SID Bank also manages risks at the strategic level.

The Bank reviews on at least a quarterly basis whether the planned activities to meet its long-term strategic objectives are being carried out, and in the event of major changes in the external factors updates the action strategy and takes corrective measures.

Mission statement, vision and values

As Slovenia's central financial institution in the areas of promotion and development, SID Bank develops and provides long-term financial services to complement the financial market, thereby promoting economic competitiveness, job creation and sustainable development.

The increased financial value of services for final beneficiaries, in particular SMEs with high potential for development, the implementation of the national development strategy and the effective exercise of its public authorisations are the foundation on which SID Bank pursues its objective of being an effective and valued partner in development.

The Bank endeavours to ensure that its operations are transparent, efficient and socially responsible, with concern for its staff and for its own internal growth. Values such as responsibility, expertise, commitment, cooperation and creativity are the fundamental principles that guide SID Bank staff in their everyday work, in their mutual relations, and in their dealings with clients and other interest groups.

Key strategic policies

Financial aspect

The Bank will continue endeavouring to diversify its long-term funding and to use new instruments to provide long-term funding. Where funding is also provided from the budget, the Bank could combine it with non-refundable funds to offer final beneficiaries more favourable financing terms. Combining non-refundable funds from the budget and other refundable funds can increase the financial value of SID Bank's services, and can also ensure the efficient allocation of diminishing non-refundable funds in the economy.

SID Bank will ensure that all risks are managed to a degree that ensures the required level of security while achieving adequate performance. From the point of view of risk mitigation the Bank will reduce its exposure to certain sectors, and will compensate by intensifying activities in other areas, including direct financing.

SID Bank will remain committed to increasing the value of its equity and maintaining capital adequacy, including from the point of view of the anticipated regulatory changes in this area and its role as a systemically important bank. Cost-efficiency is also vital in the sense of increasing equity, and the Bank tries to maintain it at a high level.

In its insurance operations on behalf of and for the account of the Republic of Slovenia the Bank will remain committed to achieving the break-even that is its long-term target and is one of the key criteria for the satisfactory financial performance of public export credit schemes.

Market aspect

The most important objective in this aspect is to tailor the business model to SID Bank's new business situation in the upcoming strategic period. The Bank is developing a new generation of financial services to increase the financial value for final beneficiaries. In this context the Bank will accelerate the development of suitable development-oriented products while parallelly providing simple instruments for securing liquidity in the economy if so required as part of the crisis measures.

SID Bank will in particular increase its turnover and market share where market gaps are significant, and support from commercial banks has withered. In so doing it will focus on SMEs with high potential for development or growth potential that will result in job creation.

SID Bank will thus continue to act primarily in the segment of indirect financing via banks on the basis of specially designed development programmes and promotional development programmes and, in market gaps where banks are not active in general, will increase its share of direct financing. SID Bank will particularly develop products with banks based on the sharing of final risk. This will allow banks to finance transactions that they would otherwise be unable to finance alone because of their lack of capacity and/or excessive risk.

One of the key market policies will be the development of products and intensive marketing in other final beneficiary segments such as private individuals and local authorities. The evolving business model in all four basic areas of the its business activities (development of competitiveness, development of a society of knowledge and innovative enterprise, development of an environment-friendly society, regional and social development) will allow the Bank to focus especially on promoting corporate research, development and innovation and linking the academic realm (research) with the commercial realm (production and marketing) in specific projects.

In the future great emphasis will be on the actual development of new products over the entire corporate lifecycle. In this context the development capital fund and mezzanine financing will have particular importance, while the Bank will endeavour to expand its product-based cooperation with other public promotional institutions in Slovenia.

Internal aspect

The strategic priorities from the internal point of view are to put in place a quality system enabling the efficient management of internal growth, and to mitigate operational risks.

The organisational culture at the Bank will be developed in line with the established ethical values and high professional standards, while the optimisation of the business process of financing will be completed as the appropriate changes are made to the organisational structure with regard to the needs of the economy. The introduction of a competency model and model for managing on-the-job performance is also being completed.

The development of the IT system will be balanced between efficiency, flexibility and stability, while the process of designing an effective data model will continue. The strategic guidelines emphasise system integrity, data integrity and data availability to ensure proper services and support even after an increase in turnover.

The Bank will continue working to maintain internal cohesion and cooperation in the implementation of its strategic tasks and business processes. The Bank will also achieve internal growth by increasing the efficiency of business processes, by better identifying the needs of clients and by maintaining a high quality of services.

Internal structures will be tailored to the new economic reality, as set out in the objectives in the financial and market aspects. Another of the Bank's strategic guidelines is the effective governance of the SID Bank Group and the exploitation of process synergies in the Group and the right organisational structure.

Learning and development aspect

The key strategic guideline from the point of view of learning and development is the maintenance of the network of expertise that SID Bank has built in the past in financial, technical, technological and institutional areas, primarily as a result of the transfer of good practice.

Of particular importance to the development of the business model are relations with the government, in which the Bank will aim to influence the development of an advanced Slovenian model of development financing, primarily via the strengths of its established instruments and concepts.

SID Bank will continue to apply advanced concepts of responsible lending, and will try to exercise its strategy outwards and use its power to have an impact on wider society in the sense of sustainable development.

Realisation of strategic objectives

SID Bank regularly monitors the implementation of the action strategy, and revises the strategy at least once a year with regard to changes in internal and external circumstances. This ensures that the strategic guidelines are up-to-date, which given the volatility of the environment in which the Bank operates, is vital to its further development.

The adopted strategic guidelines and objectives form the basis for drawing up the Bank's annual operational plan and financial plan, which provide support for the pursuit of the strategic objectives at an operational level. The effective implementation of the plans is ensured by monitoring the realisation of the objectives and by taking the requisite corrective measures.

5. Corporate social responsibility

SID Bank's mission

The mission and activities of SID Bank focus on meeting the wider social objectives defined by all three components of sustainable development in Slovenia, namely economic growth, social security and environmental concerns. SID Bank's activities are based on long-term development documents issued by the EU and by Slovenia, which set out the priority areas with the requisite social consensus.

In providing its financial services SID Bank works in line with the long-term development guidelines relating to economic, environmental and social development set out in:
- the National Development Strategy 2005-2013 (adopted in June 2005 by the Slovenian government and the Institute of Macroeconomic Analysis and Development), which was coordinated with the Slovenian Exit Strategy 2010-2013 (adopted in February 2010 by the government);
- the Europe 2020 Strategy (European Commission report, March 2010), which is implemented via flagship initiatives, and whose implementation became a commitment for Slovenia under the annual national reform programmes (adopted in April 2011 and April 2012 by the Slovenian government).

In line with the guidelines for long-term development in the EU and in Slovenia and the needs of the economy, SID Bank's financial services are divided into four main aims:
- development of a society of knowledge and innovative enterprise,
- development of an environment-friendly society and environment-friendly production,
- development of a competitive economy, and
- regional and social development.

SID Bank's role is intermediation in financing and insurance in areas where there are market gaps, and the resulting creation of wider social benefits in terms of:
- sustainable and balanced economic development in Slovenia;
- research and innovation, and other forms of economic development activity that increase the competitiveness and excellence of businesses in Slovenia;
- close-to-nature environmental development with a high degree of protection for the environment and habitat, public infrastructure and utilities, and energy efficiency in particular;
- social progress, education and employment in Slovenia, and in the rest of the world via international development cooperation;
- other economic activities contributing to growth, development and prosperity.

The Bank sees its role and activities from two points of view. While the external activity focused on the environment is pitched at national level and in the direction of support for sustainable projects by individual investors, its internal socially responsible actions by all employees help it in its pursuit of its core business activities and mission.

When SID Bank invests time and resources in the economy for a specific purpose, it is investing permanently in the realisation of its vision and success on one hand, and in wider social development and a reduction in adverse impacts on the environment on the other hand. The end objective of the Bank's work is to ensure equal opportunities for future generations.

The Bank will also gradually commit its subsidiaries to this objective by passing on its social responsibility policy.

Outward effects of socially responsible activities

Effects of the Bank's activities

The primary role of SID Bank is to promote the sustainable development of Slovenia in accordance with its long-term development policies, with the aim of ensuring long-term, stable economic growth and improving the development financing system.

The expansion of operations to all four major areas of activities, the active implementation of assigned tasks and the resulting rapid growth of the Bank were also reflected in the socio-economic effects of SID Bank's activities. The results of an independent evaluation of SID Bank's activities in the 2007 to 2010 period,[13] completed in April 2012, illustrates the important economic role that SID Bank plays. Nearly EUR 35 billion in additional sales, generated by the SID Bank Group through its services during the period observed, nearly EUR 14 billion in additional GDP, more than EUR 15 billion in additional exports and more than 20,000 new jobs represent the key effects that derive from the aforementioned study.

Using the same methodology and specific assumptions, the SID Bank Group's services facilitated EUR 9.3 billion in sales by Slovenian companies, EUR 3.8 billion in GDP, EUR 4.3 billion in exports and more than 22,000 jobs in 2011. A total of 2,168 Slovenian companies received direct support in 2011.

Through its operations, SID Bank achieves more than economic effects; it also achieves social and environmental effects, depending on the projects that it supports and the development-promotional programs that it implements. In terms of specific tendered programmes, the financing of projects in the automotive industry were very successful in the past: a reduction in CO_2 emissions by around 4.7 million tonnes annually was achieved based on the patenting of 31 innovative solutions with the support of development projects.

The Bank also expects similar effects from a financial engineering programme and measures to promote technological-development projects in the 2011 to 2013 period, in the scope of which 163 technological innovations and 890 new jobs were identified in the first half of 2012 alone, on the basis of 11 projects financed in the total amount of EUR 90 million.

International comparisons also show that SID Bank is not only comparable with other development banks and/or export credit agencies in an internationally comparable assessment, but in many aspects exceeds them in terms of the intensity of activities.

Crisis-related activities

SID Bank played an important role in crisis and counter-cyclical activities at the onset of the global financial and economic crisis. From the outbreak of the crisis in autumn 2008 until the end of 2011, the SID Bank Group supported close to 4,500 Slovenian companies or around one tenth of all active companies, merely through financing and insuring, as its primary activities, with new loans in the total amount of EUR 3.8 billion and EUR 13.4 billion in insurance of export credits and investments. It thus played an important role in limiting the decline in economic growth, the contraction in demand, the credit crunch at banks and companies and the capital crunch. No other Slovenian bank increased its lending as intensively during the crisis as did SID Bank. At times, when the crisis

[13] Evaluation of the activities of SID Bank in the 2007 to 2010 period, with an assessment of the impact of the crisis on the future development of market gaps, done by the Faculty of Economics of the University of Ljubljana.

was at its peak, the enhanced level of financing accounted for as much as 90% of all new net inflows of loans into the economy.

Primarily due to its enhanced role during the crisis, when SID Bank became the third largest bank in terms of total assets and capital and second largest bank in terms of lending, SID Bank was recognised as a systemically important bank in accordance with a decision from the Bank of Slovenia, which could have an impact on the refinancing of commercial banks, and maintaining the financial market and its liquidity.

Responsible lending

SID Bank upholds the principles of responsible lending in practice, which in addition to an economic and financial assessment encompasses an assessment of five borrower balance sheets (intellectual capacity, raw materials, environment, energy efficiency and innovation). In addition to the planned adjustment in its lending activities, SID Bank is also developing and introducing systemic solutions and is tailoring its range of services in substantive and technical terms to the changes in the lending activities of final beneficiaries and commercial banks (e.g. adjusting financing conditions and introducing the possibility of securing loans to banks with loans).

SID Bank is aware of the importance of ethical, responsible and sustainable activities, particularly in the scope of the development-promotional and financial system. It spreads these principles and values in the environment and functions as a unique catalyst of the development of responsible lending.

SID Bank invested a great deal in the past in the development of a practical concept of responsible lending, and in 2012 updated its concept and integrated it into the internal decision-making process. As a development bank, it above all follows the principles of sustainability and self-sufficiency, and not profitability at all costs. In accordance with the ZSIRB, SID Bank reinvests and earmarks all profits for the additional financing of the economy.

SID Bank's role is thus not to support all transactions, but only those transactions that are economically and financially justifiable, and that include a component of sustainable development and bring users higher added value. Transactions are evaluated on the basis of a thorough assessment of a wider range of risks and established economic criteria of profitability. In addition to an economic-financial assessment, this also includes an assessment of five balance sheets. In this way, it is possible to ensure in the long term the sustainable development of the economy and the financial sustainability of SID Bank, and to maintain or increase its level of capital.

Alongside responsible lending, the principles that SID Bank takes into account in its operations include non-competitiveness, complementarity and subsidiarity, non-discrimination, the coverage of the entire corporate lifecycle with financial services and transparency.

The concept of responsible lending is also seen in ensuring the added value of the Bank's services using the following levers:
- diversity of financial resources,
- longer maturities,
- lower prices of services and other more favourable terms and conditions,
- more efficient use and allocation of funds,
- promotion of the functioning of the private sector in the direction of sustainable development and an increase in its capacities,
- transfer of added value to final beneficiaries,
- positive external effects (socially benefits),

- links with other public-promotional institutions and combination of refundable and non-refundable funds, and
- development of new financial instruments tailored to the needs of the Slovenian economy, and advisory services.

Accessibility to services

With the aim of facilitating access by final beneficiaries to financial services for sustainable development projects, SID Bank once again pursued the concept of covering the entire corporate lifecycle in the development of products and programmes in 2012 – throughout the entire production chain, from start-up capital all the way to sales on domestic and foreign markets, and even until the final repayment of claims that have arisen.

The Bank thus established the bases for a development capital fund in 2012. It also introduced the following new products and programmes as a response to the current urgent needs of the highly indebted corporate sector:
- a programme to finance local government infrastructure and environment projects;
- a programme to finance small businesses, taking account of the small businesses act and the national reform programme;
- a programme to finance renewable energy and energy efficiency, with an emphasis on SMEs;
- a pre-export loan insurance product for individual long-term export transactions; and
- the introduction of the OECD's sustainable lending policy in practice in the area of export credit insurance.

Professional commitments and cooperation

Interbank agreements and recommendations that enhance the best practices, rules and principles of the banking profession contribute to healthy operations, responsible lending, and security and liquidity in the banking sector and beyond. The Bank therefore ascribes the appropriate relevance to such agreements with financial institutions at both the national and international levels, and actively participates in the exchange of information, best business practices and the establishment of professional values.

Of particular importance for SID Bank are agreements with the Bank Association of Slovenia, and with other domestic and foreign associations of which it is a member. The Bank is also a member of several international associations of financial institutions, including the EAPB, the ISLTC Club, the NEFI[14] and the Berne Union. Together with more than 50 other members of the Berne Union, the Bank signed a special declaration by which it undertakes to strive to achieve the high ethical standards and values of the association, and to perform its activities professionally and in a financially responsible manner, while respecting the environment. At the prompting of the Government Office for Climate Change, the Bank began participating in the LOCSEE[15] project as an observer in 2012.

Support for other sustainable development initiatives

SID Bank supported events in 2012 aimed at promoting the described concepts to the wider professional public and other audiences, including:

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[14] EAPB: European Association of Public Banks;
ISLTC Club: Club of Institutions of the European Union Specialising in Long-Term Credit; NEFI: Network of European Financial Institutions for SMEs.

[15] LOCSEE: Low Carbon South East Europe.

- sponsorship of an award given by the Chamber of Commerce and Industry of Slovenia for outstanding economic and entrepreneurial achievements;
- participation in the Entrepreneurial Forum;
- sponsorship of the Gazele event;
- sponsorship of the Slovenian Business Portal and the print publication *Doing Business in Slovenia*, which provides information to potential foreign investors;
- participation in a public debate at the Brdo Technology Park regarding the new EU framework programme for research and innovation, Horizon 2020;
- participation in the round table discussion, Social Responsibility and Financing Rapid Growth (DOBA 2012);
- participation in the Sustainable Development Academy (Faculty of Economics in Ljubljana);
- participation in a study of social responsibility at Slovenian companies under the auspices of the Chamber of Commerce and Industry,
- participation in research into the impact of factors of socially responsible behaviour on business models, etc.

Communication with external audiences

As a promotional and development bank, SID Bank gives a great deal of attention to the transparency of its operations and accordingly open communications.

Because the need for SID Bank's activities relating to market gaps has increased during the financial and economic crisis, its role in the Slovenian economy has increased significantly in recent years. In addition to informing the public about promotional and development programmes, the Bank has also provided continuous information about crisis-related activities. Due to the expiration of the majority of crisis measures, SID Bank has again reinforced communications regarding its core activities of development and promotion.

The primary focus of external communications is on the business public, in particular business partners and the media. SID Bank provides comprehensive information about its programmes and opportunities to receive its funds. In addition to press conferences and press releases and notification via its website, SID Bank organised presentations of new and existing products for companies and local government in 2012, and provided regular information and enhanced business relationships with companies and banks that provide SID Bank's funds to companies.

In 2012 the Bank organised the Contact Point for Knowledge event for the second time on the topic of developing new business models in the commercial sector. The event is a meeting of renowned Slovenian and foreign economists with representatives of companies, banks, economic associations, government institutions and the media, where knowledge, experiences, opinions and views regarding current economic topics are exchanged during lectures and round table discussions.

Internal socially responsible activities

SID Bank is aware that socially responsible activities cannot be properly developed without the development of the personal responsibility of every individual in the organisation. For this reason, awareness about personal and social responsibility is promoted at all levels at SID Bank as the lifestyle of the individual and organisation as a whole in all aspects of its activities.

This is also taken into account in SID Bank's policy of social responsibility, which was adopted in the broadest and most comprehensive sense. The formally binding document emphasises the role of the entire collective in the implementation of the policy, while the bases for the systematic management of the policy's content have also been laid down. The Bank constantly updates measures in the area of social responsibility through the strategic-operational planning process (action strategy, annual operational plans).

Exceptionally rapid growth in the past demanded balancing with the Bank's internal growth, which is an essential precondition for the appropriate continued development in all areas of operations. In that respect, SID Bank continued to establish a quality system in 2012 for the effective management of internal growth, which will in part facilitate the improved recognition of clients' needs, the maintaining of a high quality of service and comprehensive risk management, with the aim of maintaining the security of operations and the capital contributed by the state.

The Bank adopted a governance policy that takes account of corporate values, reference governance codes, cooperation with all stakeholders, the policy of transactions between the company and related parties, the commitment to identify conflicts of interest and the independence of management and supervisory bodies, and the assessment of the efficiency and protection of interests of employees.

Business ethics

A code of ethics and standards, which governs in detail the principles and rules by which the Bank, its bodies and its employees act in the performance of their tasks in relation to clients, other banks, the economic environment and within the Bank, confirms the established practice of promoting the appropriate organisational culture, and the positive behaviour and attitude of employees in the performance of their tasks. The code also places special emphasis on social and environmental responsibility.

Special attention is given to preventing corruption in transactions with clients and in specific projects (similar to elsewhere in the world, corruption threatens the rule of law and public confidence in government institutions) and to the environmental protection policy of the OECD.

The Bank is also aware of its special position with respect to the potential distortion of free competition, and therefore does not typically compete with other financial institutions on the market in the performance of its activities, but attempts to complement the existing market to the greatest extent possible.

Customer relations

SID Bank provides all of its services with the aim of directly and indirectly generating added value for users. If an indirect activity is involved, services via financial intermediaries using the appropriate leverage ensure the transfer of financial value to final beneficiaries. The primary focus of SID Bank's role is on long-term transactions, as the period of return on investments in the area of sustainable development is typically longer. In this respect SID Bank also formulates its range of services for final beneficiaries.

Owing to its public functions, the Bank pursues the principle of equal access and the equal treatment of all users of its services, meaning the same services under the same conditions for all equally entitled entities (principle of non-discrimination). Special attention is also given to the appropriate regional allocation of development funds.

The satisfaction of final users is seen in indicators that measure the level of satisfaction with the Bank's services. Based on the most recent measures from 2011, satisfaction averaged 4.27 (out of a maximum score of 5).

Environment-friendly company

SID Bank also upholds internal social responsibility in terms of environmental protection and energy efficiency. In 2012 it enhanced its socially responsible practices by compiling its first energy-environmental balance sheet, calculating its carbon footprint and establishing an index of social responsibility. Using the aforementioned index, the Bank monitors the implementation of measures and the achievement of objectives in fulfilling social responsibility.

		Q4 2012		Q4 2011	
Consumption of energy for heating		182,660	kWh	199,110	kWh
	per employee	1,547.97	kWh/employee	1,933.11	kWh/employee
Electricity consumption		142,451	kWh	130,500	kWh
	per employee	1,207.21	kWh/employee	1,266.99	kWh/employee
Consumption of water		257	m^3	264	m^3
	per employee	2.18	m^3/employee	2.56	m^3/employee
Carbon footprint/CO_2 emissions		140.75	t	150.48	t
	per employee	1.19	t/employee	1.46	t/employee
Use of office paper		1.25	t	1.25	t
	per employee	10.57	kg/employee	12.11	kg/employee
Value of other office supplies		4,279	EUR	4,544	EUR
	per employee	36.26	EUR/employee	44.12	EUR/employee
Size of business premises					
	per employee	19.35	m^2/employee	22.17	m^2/employee

SID index of social responsibility$_{2012}$= 103.50 points

The index shows that employees are increasingly aware of their responsibility to the environment and that SID Bank has made great strides in this area in the last year.

An established system of separate collection and disposal of waste, measures to reduce electricity consumption in offices, the introduction of paperless operations and the replacement of certain print publications with electronically accessible versions are just a few of the measures the Bank has employed with the aim of functioning as an environment-friendly company.

SID Bank ceased the practice of giving business partners gifts, and redirects the funds saved to Umanotera, the Slovenian Foundation for Sustainable Development, which supports various environmental and sustainability campaigns in the scope of the *Krilca* (Wings) project.

The need to renovate the commercial building that houses its offices represents a special challenge for the Bank. SID Bank has decided to carry out the renovation in line with sustainable development principles. This entails the reconstruction of the existing building instead of the construction of new surface areas, taking into account the principles of historic preservation, energy efficiency, the impact on the environment and the optimal working environment.

Internal communications

SID Bank performs a highly specialised activity. It is therefore crucial to its successful functioning that employees understand and support its actions. Effective and open communications can contribute to that end.

Various forms of notifying and communicating with employees are in place at the Bank. They include direct communication between management and employees, such as regular internal meetings and meetings between employees and the management board, access to electronic data collections, notification via an internal electronic newsletter and the quarterly publication of the in-house newsletter, *Cekin*.

An assessment of the work of superiors was carried out at the end of 2011, based on a survey that the Bank conducts every two years. The aim of the survey is to get feedback on employee satisfaction. The result of employee satisfaction was very good, as the established target of 70% was exceeded. The results represent a good basis for improvement for all employees, particularly management staff, and also represent a major commitment for the future.

Concern for employees

Work and leisure time are complementary components of life, which SID Bank takes into account when organising the work environment. Special attention is also given to the basic rights of employees, their safety and health, working conditions, social security, personal and professional development, social dialogue and mutual relationships.

In the area of employee health and safety in 2012, SID Bank continued the practice of paying voluntary health insurance, and facilitating periodic medical examinations for all employees and regular ophthalmologic examinations. It also conducts regular professional training in the area of occupational health and safety and fire safety, which all employees must attend. SID Bank facilitates flexible working hours, making it easier to achieve work-life balance.

An innovation system and a process for managing improvements were activated in 2012. The latter takes into account improvements in the area of social responsibility and its popularisation among the entire collective.

SID Bank gives special attention to employee development with the aim of maintaining an education and qualification structure appropriate for the Bank's development and strategic objectives, the effective adaptation of employees to changes and challenges within the organisation and the environment, and providing employees with a sufficiently stimulating work environment that will also offer enough professional challenges in the future.

Annual career development interviews were conducted with employees, as well as half-yearly interviews to determine the achievement of established objectives. Annual career development interviews represent the basis for assessing the development potential of individuals, the definition of key staff members and the drafting of annual training plans. In this way, the Bank is able to identify needs for new knowledge in a timely manner, and plan targeted training and education programmes for individuals and groups of employees.

The Bank has been creating new jobs for many years, and opens new employment opportunities through its growth and development. Employment was conducted in line with the annual employment plan again in 2012 and in line with guidelines from the action strategy, which is based primarily on the adjustment of employment to growth in the scope of operations and the development of new products, on the employment of experts with specific skills and experience and on maintaining competent and perspective employees at the bank.

Promoting the acquisition of additional knowledge and skills and their practical use represents one of the guidelines of SID Bank's action strategy. A total of 109 employees participated in various forms of training in 2012, representing 93.4% of the average number of employees during the year. The average number of training hours per employee was 28. A great deal of emphasis is also placed on the internal transfer of newly acquired knowledge and the evaluation of training programmes. Wages and other labour costs are paid to employees in accordance with valid legislation and the collective agreement for the banking sector, while remuneration for performance and advancement are governed by a bylaw.

SID Bank hired 15 new employees in 2012. The Bank had 124 employees at the end of the year, of which 81 were women and 43 were men. The average number of employees in 2012 was 117.

	SID Bank		SID Bank Group	
Qualification level	number	proportion, %	number	proportion, %
Level V or lower	15	12.1	60	17.1
Level VI	12	9.7	39	11.1
Level VII	87	70.1	234	66.7
Level VIII	9	7.3	16	4.5
Level IX	1	0.8	2	0.6
Total	124	100.0	351	100.0

6. Performance in 2012

6.1 International environment and the Slovenian economy in 2012

International environment[16]

After a rise in global economic growth in the first quarter of 2012, which alongside certain other positive trends produced signs of a gradual emergence from the crisis, the global economy cooled again until the summer before renewing minimal growth in the second half of the year. Emerging economies were the engine for the majority of the positive trends, although of the BRIC[17] countries growth is sluggish in Brazil and India. Developed economies as a whole entered a phase of approximately zero growth. The final quarter of 2012 in particular brought poor economic growth in the majority of the major economies; the USA managed to maintain minimal growth despite the declining trend, but in Europe the economy began to contract again. The adverse trends are expected to continue in the first half of 2013, or even for the whole year. Further evidence comes from the short-term economic indicators: industrial production for example recorded negative growth throughout almost the whole of 2012, in the euro area overall including Germany as the engine of the European economy.

Despite the adverse trends in economic growth, international trade recorded continual growth throughout 2012, particularly in emerging economies. Growth reached up to 12% in annual terms, higher than just before the outbreak of the crisis in 2008.

Of Slovenia's main trading partners, Germany, Austria and Russia continued to record growth last year, while the situation was worse in other countries (e.g. France, Italy). Initial estimates put year-on-year economic growth at 0.1% in Germany, while according to the January forecasts growth in Russia in 2012 was estimated at 3.3%. A weak recession continued in the countries of south-eastern Europe (an overall decline of 0.1%), although the decline in GDP was significantly larger in Croatia, Serbia, and Bosnia and Herzegovina.

The situation on the financial markets improved slightly, primarily as a result of the increasingly interventionist role of the ECB (an extra 3-year LTRO, a cut in the key interest rate to 0.75%, the announcement of unlimited purchases of government bonds provided that the country officially applies for an international bailout) and its statement that it would do whatever it takes to defend the euro. There has been a sharp decline in risk on the international capital markets, although the spread between the core and periphery euro area countries remains large, which can be attributed to the negative economic and fiscal position of the latter.

By contrast, the situation on the interbank market remains unfavourable. According to the figures of the Bank for International Settlements, the second quarter of 2012 saw the largest decline in interbank lending since 2008, at almost USD 600 billion or just over 3% of the entire international interbank market. The main reasons were the withdrawal of American banks from the European market, and the switching of investments of euro area banks into German and French government securities.

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[16] Unless stated otherwise, the figures are taken from the following sources:
- IMAD, Slovenian Economic Mirror, January 2013;
- Bank of Slovenia, Eurosystem Bulletin, January 2013.

[17] Brazil, Russia, India and China.

As one of the key central bank monetary policy factors, inflation in the euro area was manageable, and ended 2012 with a trend of further decline.

Payment indiscipline is a major problem for EU countries, and in the fight against late payments in trade transactions the European Commission adopted a directive on late payments. In Europe 57% of firms stated that they have problems with liquidity as a result of late payments in 2012, an increase of 10 percentage points on 2011, and the forecasts for 2013 are also not promising.

International financial regulations are continuing to be tightened in response to irresponsible practice in the past. This has for example seen the foundations put in place for unified European banking supervision (the banking union), while there were also moves at the level of the European Commission to introduce a tax on financial transactions. The Basel Committee on Banking Supervision slightly relaxed the timing of the requirement to introduce Basel III measures: banks are not required to meet the new liquidity requirements until between 2015 and 2019.

Slovenian economy in 2012[18]

Slovenia's GDP fell by almost 3% at the quarterly level in 2012, other than in the first quarter, when the economy responded to the positive trends in the wider economic environment. After recording positive growth in 2010 and the majority of 2011, the economy thus again moved into recession.

Exports slowed in particular, and lessen their role as the engine of the Slovenian economy (growth was just 0.3% in year-on-year terms). Private consumption fell (retail sales by 7.5%), primarily as a result of a fall in wages in the public sector and a decline in household disposable income. Gross fixed capital formation is continuing to decline as well (for the 17th consecutive quarter), while a decline in government expenditure (public investment in particular) and an increase in inventories also contributed to the negative growth. One of the rare positive factors of economic growth in 2012 was the significant narrowing of the current account deficit as a result of the decline in imports (by 2.4%).

Almost all the short-term economic indicators declined in 2012 (merchandise exports, industrial production and trends in manufacturing, turnover in the retail sector), but the decline in the amount of construction put in place was particularly notable, construction activity having declined since autumn 2008. The amount of construction put in place in Slovenia in December was down almost 14% on the previous year.

The deterioration in the economic climate and, other adverse factors, the poor outlook for recovery and the decline in growth in the stock of foreign investments have also brought a fall in the workforce in employment, which has been falling towards 800,000, while the number of pensioners exceeded 600,000 for the first time in 2012. At the end of 2012 unemployment stood at more than 118,000 in Slovenia, up 1.7% on the end of 2011. The decline in employment eased temporarily in the first half of the year, but the number of unemployed began rising again in September.

The government succeeded in reducing the budget deficit through its austerity measures, primarily thanks to successful negotiations with the public sector unions and the resulting wage falls. Public opposition, protests and strikes towards the end of the year meant that readiness for

[18] Unless stated otherwise, the figures are taken from the following sources:
- IMAD, Slovenian Economic Mirror, January 2013;
- Bank of Slovenia, Eurosystem Bulletin, January 2013.
- Eurostat, database.

further urgent reforms began to wane, which is increasing the risk to the resolution of economic and budgetary problems. The key remains reform of the labour market and an increase in its flexibility. Reform is vital from the point of view of an increase in the poor overall competitiveness of the Slovenian economy.

At the end of 2012 the Constitutional Court ruled that the postponement of the entry into force and the overturning of the Slovenian sovereign holding company act and the measures to strengthen bank stability act in referendums would have anti-constitutional consequences. This ruling by the Constitutional Court finally confirmed the possibility of establishing the sovereign holding company and the bad bank. The Constitutional Court ruling also indirectly prevented a referendum on the implementation of the budgets for 2013 and 2014. The adoption of the pension reform in early December was accompanied by the adoption of certain key economic reforms and laws vital to the transparent management of government-owned assets, the stabilisation of the banking system and fiscal consolidation.

The average gross wage began to fall in 2012, in both the public sector and the private sector, the decline amounting to approximately 2%. Growth in nominal unit labour costs fell to below the European average, both in manufacturing and in the total economy. Despite the favourable developments in the last two years, Slovenia has remained in the group of euro area and EU countries with a larger deterioration in cost competitiveness during the crisis, primarily as a result of a pronounced deterioration in 2008 and 2009.

The cost competitiveness of the economy improved for the third consecutive year, primarily as a result of a decline in the euro exchange rate, but the structure of Slovenia's foreign trade means that competitiveness has remained among the worst in the euro area. The trend reversed at the end of the year as the euro strengthened, and the competitiveness of Slovenian exports began to decline, like that of the euro area economy as a whole. Additional uncertainty in this respect has recently been caused by individual cases of devaluation of national currencies, which could eventually even turn into a currency war.

Consumer prices rose by 3.1% in Slovenia last year, more than in the euro area overall and 1 percentage point more than in 2011. As in the euro area overall, the key factors in Slovenia were rises in energy prices (liquid fuels in particular), food prices and services prices. Another major factor in last year's inflation was tax changes, most notably higher excise duties on tobacco products, liquid fuels and alcoholic beverages, while rises in certain environmental charges were also significant to a lesser extent. The movement in industrial producer prices was steady in 2012. Growth in industrial producer prices on the domestic market was low (at 1.0%).

The net external debt increased to record levels in the first half of the year (although still low in relative terms), at almost EUR 15 billion, but then displayed a trend of gentle decline in the second half of the year, primarily driven by the private sector and debt repayments to the foreign creditors. Slovenian banks lowered their debts by EUR 3.8 billion last year (primarily repayments at foreign banks, and also bond repayments), while the domestic non-banking sector lowered their debts by EUR 1.3 billion. From EUR 15.6 billion at the end of 2008, Slovenian banks' liabilities to foreign banks had almost halved by the end of 2012.

Loans to non-financial corporations were down 10.5% in year-on-year terms in 2012, and the partial compensation by means of Eurosystem funding was unable to end the decline. Household financing via consumer loans continued to decline in reflection of the deterioration in their economic position and their reluctance to spend. The stock of lending to corporates and other non-financial institutions declined by EUR 1.6 billion in 2012, while lending to households was down around EUR 190 million. The stock of household savings also declined last year (by EUR 45 million) as a result of a decline in disposable income.

The continuing debt repayments to the foreign creditors on one side and the contraction in the credit portfolio (primarily to corporates and other NFIs) on the other brought a decline in the banking system's total assets, which fell by 6.1% in 2012.

The position of the Slovenian economy deteriorated significantly in 2012, as a result of which the banking system recorded a pre-tax loss of EUR 769 million during the year according to Bank of Slovenia figures, the largest factor in which was increased impairment and provisioning costs (EUR 1.6 billion, slightly more than the banking system's gross income in 2012). The banks' loan portfolios are still deteriorating, and interest income is also declining (by 13%), not being tracked at the same tempo by operating costs. The latter declined last year, but by significantly less than needed, thus increasing their ratio to interest income by 7 percentage points in 2012 to 83%.

The proportion of bad and non-performing claims and the creation of impairments and provisions in the Slovenian banking system are continuing to increase. Bad claims accounted for 14% of total claims in the banking system towards the end of 2012. Payment discipline is still deteriorating, the average number of legal entities with outstanding past-due liabilities exceeding 7,000 by the end of 2012, while the average daily amount of outstanding past-due liabilities exceeded EUR 700 million. The number of deletions of firms and sole traders from the companies register because of bankruptcy also rose last year, to more than 400.

According to provisional figures the state budget deficit amounted to EUR 1.1 billion last year, or 3.1% of forecast GDP. As a result of fiscal consolidation measures and a reduction in expenditure (of EUR 369 million), the deficit was significantly smaller than in 2011 (by EUR 420 million or 27.5%). Total state budget revenue in 2012 was EUR 58 million less than forecast in the revised budget.

Slovenia received EUR 841.6 million from the EU budget in 2012, EUR 29.4 million more than in the previous year. The disbursement in 2012 was 80.1% of that forecast in the original budget, and 94.7% of that forecast in the revised budget, similar to 2011.

There were certain shifts in mergers in Slovenia's public promotional system in 2012, which is still based primarily on non-refundable budget subsidies. Despite theirs significant decline (less than EUR 500 million in 2012), in practice there was no major shift towards greater use of refundable forms of state aid and financial engineering instruments as envisaged in the new European financial perspective 2014-2020. This has continued the practice of non-optimal allocation and inefficient use of state aid, which at 1.35% of GDP according to the figures for 2010 was almost double the European average.

Borrowing costs on foreign markets fel, primarily as a result of the general positive trends and the adoption of the pension reform; the premiums on 10-year Slovenian government bonds over the German benchmarks fell from the record level of just over 6 percentage points in August (after downgradings by all three major rating agencies) to under 4 percentage points by the end of the year, which given further reform and a reduction in political instability could reduce the downward pressure on the competitiveness of the Slovenian economy from this source (price segmentation between euro area countries remains high) and debt servicing in the future (given further reductions in the budget deficit). The borrowing costs of the government and SID Bank are highly correlated. A rise in Slovenia's sovereign borrowing costs led to a rise in SID Bank's borrowing costs in 2012.

The rise in interest rates in Slovenia in 2012 and the fall in interest rates across the euro area widened the interest spread in 2012 to the detriment of the Slovenian economy. This further reduced the Slovenian economy's poor competitiveness on global markets, thereby limiting the possibility of attaining higher added value on products made in Slovenia and exported.

Given the current balance sheet structure, low euro area interest rates did not have a significant impact on SID Bank, as the largest proportion of asset and liability items have variable interest rates tied to the Euribor.

The number of composition proceedings initiated between business entities in 2012 was up almost a tenth on the previous year. The largest number of composition proceedings initiated between companies and cooperatives was in manufacturing (more than a third of the total), in the manufacture of non-metallic mineral products, furniture, food products, and rubber and plastic products. Business entities in the construction sector accounted for more than a quarter of the total.

The largest numbers of short-term defaulters were in wholesale and retail trade and in construction (each sector accounting for a fifth of the total), while the highest average daily amounts of outstanding past-due liabilities per legal entity were recorded by the sectors of financial and insurance activities, real estate activities and construction.

Bad business models meant that before the crisis many Slovenian firms were operating on the wings of the economic boom and cheap borrowing, which in the crisis proved to be unsustainable (over-leveraging), and given the owners' inability to recapitalise these firms has also been reflected in deeper problems in the banking sector.

Impact of the external environment on the performance of SID Bank and the SID Bank Group

The position of the Slovenian economy deteriorated in 2012, which had an impact on the performance of SID Bank and the SID Bank Group.

The banking system was subject to drastic downgradings in 2012, and faced major pressures and certain fundamental challenges. SID Bank responded to the decline in bank lending activity related to below-average capital adequacy, the increase in non-performing and bad claims in the recession environment and the maturing of liabilities to the rest of the world and the need for refinancing by modifying its products. This encompassed a change in the mechanism for regulating relations between banks, including the terms of financing, in the direction of greater flexibility and the maximum possible adaptability in the price terms of financing with regard to the adverse situation on the international financial markets from the point of view of Slovenia's sovereign downgrading. The proportion of financing via Slovenian banks thus remained at the level of the previous year.

The proportion of direct lending to the corporate sector declined because of the recession. The rising uncertainty surrounding economic activity reduced demand for investment credits, but increased the need for lending for working capital. This resulted in reduced demand for SID Bank's services, as only loans for investment and development are allowed under its mandates. Another factor in the decline in the net portfolio of loans made to corporates by SID Bank was the deterioration in the financial and asset position of firms, most of which were over-leveraged and lacking in capital. This resulted in downgradings for these firms and a consequent increase in loan impairments.

As a result of the renewed recession in the Slovenian economy and the financial sector and the subsequent increased difficulty in obtaining new export business, there was no sign of increased demand among exporters for non-marketable insurance, in particular of medium-term export credits in south-eastern Europe. The majority of the major construction and engineering firms that used to carry out investment work in the rest of the world collapsed in the crisis. At the same time firms are reducing the insurance costs of their investments in the rest of the world or cancelling contracts previously concluded. The trend of decline in medium-term insurance operations is also related to the loss of construction work in Russia, which is the most important country for non-marketable insurance.

The increase in payment indiscipline meant that PKZ operated in a very uncertain environment in 2012. The most important factor in PKZ's performance is the economic situation in the countries that account for the largest proportions of its portfolio in terms of premium, insurance value and exposure. Alongside Slovenia, these are Germany, Italy, Russia and Croatia.

The adverse economic situation in south-eastern Europe in 2012 also had an impact on the performance of the Prvi Faktor Group, which nevertheless generated a profit. Of all the markets in which the Prvi Faktor Group operates, the most problematic is Bosnia and Herzegovina. In addition to a very high external exposure, low GDP and a large budget deficit, the complexity of its administrative arrangements also has an impact on performance there.

6.2 Financial results

	SID Bank		SID Bank Group	
	amount EUR thousands	index 2012/2011	amount EUR thousands	index 2012/2011
Net interest income	63,142	116.1	67,074	111.4
Net non-interest income	30,358	788.1	37,986	304.6
Operating costs	(8,160)	107.3	(15,125)	106.6
Impairments and provisioning	(79,478)	184.3	(80,877)	182.4
Pre-tax profit	5,862	78.3	9,058	63.9
Corporate income tax	(821)	79.4	(2,235)	71.9
Net profit for the financial year	5,041	78.1	6,823	61.7

Financial results of SID Bank

Net interest income amounted to EUR 63.1 million in 2012, up 16.1% on 2011. Interest income was down 0.5%, while interest expenses were down 9.3%. Net interest income accounted for 67.5% of total net revenue in 2012 (2011: 93.4%).

Net non-interest income amounted to EUR 30.4 million in 2012, up sharply on 2011, primarily as a result of gains on financial assets and liabilities measured at fair value through profit or loss.

Net non-interest income comprised:
- dividend income in the amount of EUR 1.6 million;
- net fee and commission income in the amount of EUR 1.1 million;
- gains on financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 1.7 million;
- revaluation income from the loss made by the Loan Fund in the amount of EUR 21.1 million;

- changes in fair value in hedge accounting in the amount of EUR 2.6 million;
- other net income in the amount of EUR 2.3 million.

SID Bank received a loan of EUR 50 million from the Ministry of Economic Development and Technology at the end of 2011, which together with its own funding allowed the creation of the Loan Fund. SID Bank creates impairments and provisioning for loans approved on this basis. The resulting expenses amounted to EUR 21.2 million in 2012. Under the contract, a loss is covered first by funding from the state budget via a reduction in SID Bank's liabilities to the Ministry of Economic Development and Technology, which resulted in SID Bank realising revaluation income of EUR 21.1 million in the income statement. The aforementioned income led to an increase in the financial intermediation margin, which stood at 2.3% in 2012 (2011: 1.5%).

The Bank continued to manage costs effectively in 2012, as illustrated by a CIR of 8.7% (2011: 13.1%). The ratio of operating costs to assets remained at 0.2%. The Bank's costs in 2012 were up 7.3% on the previous year at EUR 8.2 million, of which administrative costs amounted to EUR 7.6 million, amortisation and depreciation to EUR 0.6 million. Labour costs amounted to EUR 5.5 million, up 11.7% on 2011. The rise in labour costs was the result of the recruitment of new employees, as the headcount at the end of 2012 was 12 higher than a year earlier. Costs of material and services amounted to EUR 2.1 million.

Impairment and provisioning costs amounted to EUR 79.5 million in 2012, of which impairments amounted to EUR 69.4 million and provisioning to EUR 10.1 million. The total was up 84.3% on 2011, partly as a result of the deterioration in the Bank's portfolio. As stated previously, a portion of the impairment costs (EUR 21.2 million) related to loans from the Loan Fund.

The Bank recorded a pre-tax profit of EUR 5.9 million in 2012, equal to 78.3% of its profit in 2011.

Financial results of the SID Bank Group

Net interest income amounted to EUR 67.1 million in 2012, up 11.4% on 2011. Interest income was down 2%, while interest expenses were down 9.3%.

Net non-interest income amounted to EUR 38 million in 2012, up EUR 25.5 million on 2011. Net non-interest income comprised:
- dividend income in the amount of EUR 0.4 million;
- net fee and commission income in the amount of EUR 4.6 million;
- gains on financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 1.8 million;
- gains on financial assets and liabilities measured at fair value through profit or loss in the amount of EUR 21.1 million;
- changes in fair value in hedge accounting in the amount of EUR 2.6 million;
- net income from insurance operations in the amount of EUR 4.9 million;
- other net income in the amount of EUR 2.6 million.

The SID Bank Group's costs amounted to EUR 15.1 million in 2012, up 6.6% on 2011. Labour costs amounted to EUR 10.1 million, up 7.9% on the previous year. The main factor in the rise in costs was recruitment, as the headcount in the SID Bank Group at the end of 2012 stood at 20 more than at the end of 2011. Costs of material and services amounted to EUR 4 million, up 3% on 2011. Amortisation and depreciation were up 8.4% at EUR 1 million.
The SID Bank Group's impairment and provisioning costs were just EUR 1.4 million higher than those of SID Bank. The figure was up 82.4% on 2011.

The SID Bank Group recorded a pre-tax profit of EUR 9.1 million in 2012, equal to 61.7% of its profit in 2011.

6.3 Financial position

The Bank's total assets stood at EUR 4,088.7 million at the end of 2012, up 1.5% or EUR 59.4 million on 2011. The Bank accounts for 96% of the SID Bank Group's total assets, and the structure of the Group's assets and liabilities is thus very similar to those of the Bank.

The SID Bank Group's total assets in 2012 were up 0.9% at EUR 39.7 million.

Assets

	SID Bank			SID Bank Group		
	amount EUR thousands	breakdown (%)	index 2012/2011	amount EUR thousands	breakdown (%)	index 2012/2011
Loans to banks	3,031,156	74.1	101.1	3,057,451	71.8	101.3
Loans to non-banking clients	649,294	15.9	92.6	738,831	17.3	91.1
Financial assets	310,304	7.6	146.2	335,759	7.9	137.7
Other assets	97,908	2.4	82.7	126,772	3.0	98.5
Total assets	4,088,662	100.0	101.5	4,258,813	100.0	100.9

Assets of SID Bank

Loans to banks, which includes loans and deposits at banks, increased by 1.1% in 2012 to end the year at EUR 3,031.2 million. Long-term loans to banks account for 89% of the total, and short-term bank deposits for the remainder. Loans to banks account for 74.1% of SID Bank's total assets.

Loans to non-banking clients declined by 7.4% in 2012 to end the year at EUR 649.3 million. The stock of loans declined by EUR 52.1 million, primarily as a result of an increase in loan impairments, which were up EUR 40 million in 2012. Loans to non-banking clients accounted for 15.9% of SID Bank's total assets at the end of 2012.

Financial assets increased by 46.2% or EUR 98 million in 2012. The proportion of the Bank's total assets that they account for increased from 5.3% to 7.6%. Available-for-sale securities account for the vast majority of financial assets (EUR 309.8 million).

Other assets comprise:
- balances in accounts at the central bank (EUR 0.4 million), which were down EUR 41.3 million at the end of 2012;
- derivatives used for hedging (EUR 78 million), which includes the fair value of interest rate swaps (EUR 60.4 million) and accrued interest thereon (EUR 17.6 million), and was up EUR 19.2 million on the end of the previous year;
- interests in undertakings in the Group (EUR 11.9 million), which remained unchanged in 2012;
- capital investments held for sale (EUR 2.7 million), which comprise an investment that the Bank obtained during loan restructuring;
- non-current assets in the amount of EUR 4.2 million;

- corporate income tax assets and other assets in the total amount of EUR 0.7 million, which were down EUR 1.1 million, primarily as a result of a decline in deferred tax assets.

Assets of the SID Bank Group

Loans to banks at the end of 2012 were up 1.3% or EUR 38.5 million on the end of 2011. The increase was primarily the result of an increase in the stock of loans to banks at SID Bank.

Loans to non-banking clients declined by 8.9% or EUR 71.9 million in 2012 to end the year at EUR 738.8 million. Loans and guarantees were down EUR 20.6 million, factoring receivables were down EUR 10.7 million and value adjustments were up EUR 40.7 million.

Financial assets at the end of 2012 were up 37.7% or EUR 91.9 million on the end of 2011. Within this item available-for-sale financial assets were up 37% or EUR 90.2 million.

Other assets include:
- cash and balances in accounts at the central bank in the amount of EUR 0.4 million;
- derivatives used for hedging in the amount of EUR 78 million;
- long-term interests in subsidiaries, associates and joint ventures in the amount of EUR 0.4 million, whose value was unchanged in 2012;
- capital investments held for sale in the amount of EUR 2.7 million;
- investment property in the amount of EUR 0.8 million, up EUR 0.6 million on 2011;
- non-current assets in the amount of EUR 9 million, up EUR 1 million on the end of 2011;.
- corporate income tax assets in the amount of EUR 3 million, down EUR 0.8 million on 2011;
- other assets in the amount of EUR 32.5 million, the largest item of which is reinsurers' assets and receivables from insurance operations (EUR 31.8 million), which were down EUR 0.5 million in 2012.

Liabilities

	SID Bank			SID Bank Group		
	amount EUR thousands	breakdown (%)	index 2012/2011	amount EUR thousands	breakdown (%)	index 2012/2011
Financial liabilities to central bank	206,592	5.1	413.1	206,592	4.9	413.1
Borrowings (loans)	2,074,682	50.7	98.0	2,180,295	51.2	97.3
Deposits	44,306	1.1	37.1	44,306	1.0	37.1
Debt securities	1,406,725	34.4	100.1	1,406,725	33.0	100.1
Provisions	14,713	0.4	318.4	44,587	1.0	121.7
Other liabilities	1,420	0.0	97.3	13,133	0.3	91.0
Shareholder equity	340,224	8.3	102.5	363,175	8.5	103.0
Total equity and liabilities	4,088,662	100.0	101.5	4,258,813	100.0	100.9

Liabilities of SID Bank

Financial liabilities to the central bank consist of non-current liabilities with a maturity of 3 years. They increased by EUR 156.7 million or 413.1% in 2012.

Borrowing via loans amounted to EUR 2,074.7 million, or 50.7% of SID Bank's total liabilities. The Bank reduced these liabilities by EUR 42 million or 2% in 2012. Loans from banks account for 92.8% of the total liabilities from borrowings via loans, loans from other financial institutions and government-owned undertakings accounting for the remainder.

Deposits amounted to EUR 44.3 million at the end of 2012, down EUR 75.2 million. All liabilities on this basis are current liabilities to banks.

Issued debt securities remain the second most important source of funding for SID Bank, and account for 34.4% of its total liabilities. In 2012 the Bank succeeded in replacing its bond maturing in October in the amount of EUR 150 million with a new one-year bond with a nominal value of EUR 210 million.

Provisions amounted to EUR 14.7 million at the end of 2012, up EUR 7.6 million during the year. The increase was primarily the result of provisions for approved but unused loans.

Other liabilities in the total amount of EUR 1.4 million include financial liabilities held for trading, liabilities for corporate income tax and miscellaneous liabilities.

SID Bank's shareholder equity was up 2.5% or EUR 8.2 million in 2012. Profit reserves increased by EUR 5.7 million and the revaluation surplus for available-for-sale financial assets by EUR 3.2 million, but retained earnings including the net profit for the financial year were down EUR 0.7 million. Shareholder equity accounted for 8.3% of SID Bank's total liabilities.

Liabilities of the SID Bank Group

The SID Bank Group's financial liabilities to the central bank were the same as those of SID Bank.

Borrowings via loans accounted for the largest proportion of the Group's total liabilities (51.2%). They declined by EUR 60.9 million or 2.7% in 2012.

The Group's deposits were the same as SID Bank's liabilities from deposits.

The Group's liabilities from issued securities were also the same as those of the Bank.

Provisions amounted to EUR 44.6 million. The largest proportion related to liabilities from insurance contracts (EUR 28.9 million), followed by provisions for banking operations in the amount of EUR 14.5 million, deferred income from insurance premiums in the amount of EUR 0.8 million and provisions for employee benefits in the amount of EUR 0.4 million. Provisions were up 21.7% on the end of 2011.

Other liabilities comprised accrued reinsurers' recourse expenses in the amount of EUR 9.3 million, liabilities for corporate income tax in the amount of EUR 0.3 million and miscellaneous liabilities in the amount of EUR 3.5 million.

The SID Bank Group's shareholder equity increased by 3% in 2012 to end the year at EUR 10.7 million. Profit reserves increased by EUR 7.2 million and the revaluation surplus for available-for-sale financial assets by EUR 4.1 million, but retained earnings including the net profit for the financial year were down EUR 0.6 million. Shareholder equity accounted for 8.5% of the SID Bank Group's total liabilities.

6.4 Risk management

The main risks faced by SID Bank are credit risk, interest rate risk, liquidity risk, currency risk and operational risk. SID Bank's attitude to taking up risks is defined such that the Bank focuses on credit risk and operational risk, while minimising other risks (interest rate risk, currency risk, liquidity risk). Risk management at SID Bank additionally needs to take account of the specific attributes of the implementation of promotional and development tasks and services of importance to Slovenia's development, and segmentation of operations into those involving the Bank's own resources and those on behalf of and for the account of the Republic of Slovenia, including the management of the contingency reserves and the reserves in the IREP.[19]

The main purpose of risk management is to reduce the likelihood of risks being realised and to reduce losses in the event of an individual risk being realised. Risk management includes identifying, measuring or assessing, managing and monitoring risks, and internal and external reporting of risks. In risk management SID Bank prioritises the security and stability of its operations, which help to increase the value of its equity in the long term, the maintenance of the Bank's reputation and the maximisation of benefits for users of its services and other stakeholders.

Risk management begins in the establishment of an appropriate organisational structure and work processes, allowing for business targets to be met while operations remain secure and compliant with regulations. In the implementation of risk management measures the key objective is to achieve proper awareness of risks at all levels of the Bank's activities.

Risk management begins in commercial organisational units, and continues in organisational units separate from the commercial units, and proceeds all the way up to the management board, thereby ensuring its independence.

The following bodies and organisational units are responsible for the direct implementation of risk management:
- credit committee: management and monitoring of credit risk and large exposures;
- liquidity committee: liquidity risk and currency risk;
- asset liability committee: balance sheet structure, capital adequacy, aggregate risks;
- risk management department: preparation of risk management strategy and policy, monitoring of risks;
- credit rating department: assessment of clients' financial position and projections of their performance, assessment of soft factors, selection of appropriate indicators for determining financial commitments;
- backoffice and payments department: daily monitoring of currency risk and liquidity risk in accordance with internal limits.

SID Bank assesses its risk profile each year, and compiles a report on the implementation of the internal capital adequacy assessment process.

In accordance with the risk management strategy and the capital risk and capital management policy, SID Bank has put in place an internal capital adequacy assessment process, which:
- is based on the identification, measurement or assessment of risks, the formulation of an aggregate assessment of risks and the monitoring of significant risks that the Bank takes up in its operations;
- ensures adequate internal capital in relation to the Bank's risk profile;
- is properly incorporated into the governance system.

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19 IREP: Interest Rate Equalisation Programme.

A comprehensive internal capital adequacy assessment process, tailored to the risks taken up, ensures that the risks taken up remain within the limits of SID Bank's risk absorption capacity.

SID Bank also conducts stress tests on the basis of its own scenarios and scenarios suggested by the supervisor. On the basis of the results of these tests SID Bank is able to identify in advance and in good time those areas where it is most vulnerable, and to mitigate the risks and improve its performance by means of appropriate measures.

SID Bank also provides credit and investment insurance against non-marketable risks of a commercial and non-commercial nature on behalf of and for the account of the Republic of Slovenia. Claims payouts are covered from the contingency reserves, although an increase in claims could lead to the contingency reserves depleting to a level that under the ZZFMGP requires funding to be provided from the state budget, and policyholders are paid indirectly via the contingency reserves.

To prevent conflicts of interest and to maximise efficiency, credit and investment insurance operations are provided in a special department that is organisationally separate from banking operations all the way to the level of the management board. The right to conclude insurance operations is defined similarly to banking operations, whereby all transactions of EUR 5 million or more are decided on by the international trade promotion commission. The commission has the power to make decisions in other areas related to risk management, such as approvals for the policy of insurance operations in individual countries or groups of countries, which together with the limits on insurance already set out in the ZZFMGP act to limit potential claims. In addition, SID Bank uses a risk management model (a value-at-risk technique) to calculate potential claims on the basis of data on insurance concluded on behalf of and for the account of the Republic of Slovenia, to assess whether the contingency reserves are adequate to cover these claims, and to estimate the maximum potential claim and the impact of new insurance operations on potential claims.

For more on risk management, see Section 3 of the accounts.

6.5 SID Bank's performance in key areas

6.5.1 Financing

SID Bank upholds the principles of responsible lending in practice, which in addition to an economic and financial assessment encompasses an assessment of borrowers' records and practice (balance sheets) with regard to innovation, intellectual capacity, raw materials, environment, and energy efficiency. In addition to the planned adjustment in its lending activities, SID Bank is also developing and introducing systemic solutions and is tailoring its range of services in substantive and technical terms to the changes in the lending activities of final beneficiaries and commercial banks.

SID Bank has provided funds to target groups of final beneficiaries either directly, or indirectly via commercial banks, and has designed all its financing services to complement the activities of other financial institutions on the market. The complementary financing services were based on established financing instruments such as loans, purchase of receivables, take-up of risks, project financing and export credits, and on a new instrument: loans classed as state aid. This is the key to eliminating market gaps in areas where SID Bank can operate, and to product integration in the public promotional system, in which non-refundable incentives dominate (e.g. research, development and innovation).

Via its engagement and inclusion of separate long-term dedicated funding from the European Investment Bank, the Council of Europe Development Bank, Germany's development bank (KfW) and the Ministry of Higher Education, Science and Technology in its programmes, in 2012 SID Bank realised its transformational role, thereby creating new value for its target groups of final beneficiaries.

The maturity breakdown of SID Bank's credit portfolio is in line with its focus on the activities set out by the ZSIRB and the ZZFMGP, long-term loans accounting for 99.8% of the credit portfolio at the end of 2012.

In line with the European business model for development banks, the largest segment consists of SID Bank programmes whose funds are accessed via banks.

Commercial banks in the role of intermediaries remained SID Bank's most important partners in the area of financing in 2012, accounting for 80.6% of the credit portfolio (2011: 80.2%). Lending to non-banking clients accounted for 19.4% of the credit portfolio as at 31 December 2012 (2011: 19.8%).

EUR thousands	2012	2011	Index 2012/2011
Loans to banks	2,695,877	2,843,690	94.8
Loans to non-banking clients	649,294	701,410	92.6
Total as at 31 Dec	3,345,171	3,545,100	94.4

The stock of SID Bank's credit portfolio at the end of 2012 reflected the decline in economic activity and investment. In 2012 SID Bank placed a total of EUR 533.6 million in new assets in the form of loans (2011: EUR 965.9 million). The net stock of loans granted stood at EUR 3,345.2 million at the end of 2012 (2011: EUR 3,545.1 million), down 5.6% on the end of 2011.

The reasons for these developments in the credit portfolio are directly linked to the macroeconomic situation, the economic and financial position of the corporate sector, the performance of the Slovenian banking system and the lending activity of the commercial banks. As expected, in 2012 the absorption capacity of the commercial banks and final beneficiaries for SID Bank's dedicated funds revealed:

- the rising uncertainty surrounding economic activity;
- a decline in demand and a consequent deterioration in corporate financial and asset positions;
- a decline in investment in development, higher energy efficiency, environmental protection, etc., and thus reduced demand for the dedicated loans that can be provided by SID Bank under its assigned mandates;
- increased demand in the economy for working capital to maintain existing turnover, which is not in keeping with SID Bank's mandates;
- extensions and delays in project implementation, and corresponding deferrals in disbursements;
- higher borrowing costs, which increased as ratings were downgraded, and were passed on by the banks in the form higher interest rates on loans;
- high exposure to individual sectors and segments on the part of the banks;
- high corporate indebtedness and a lack of internal capital for (co-)financing investment in the corporate sector;
- a lack of eligible collateral for corporate loans;
- a shortfall of capital at certain banks as a result of current regulations and new Basel III regulations raising capital requirements.

Irrespective of the deterioration on the financial markets, in 2012 SID Bank maintained the quality of its products measured as a combination of maturity, amounts, cost terms and the actual logistics of the approval process, and provided dedicated funds in accordance with its role, mission and mandates. Despite the high indebtedness in the Slovenian economy and the capital crunch, SID Bank intensively introduced new products and upheld the concept of responsible lending, thereby improving the quality of financial solutions for economic competitiveness.

In 2012 the Bank also upgraded its programme of financing local government infrastructure and environment projects in the form of a direct loan from SID Bank to the local authority in question, which was first presented and offered to banks and local authorities in 2011. With this programme the Bank embarked on the independent financing of local government infrastructure and environment projects. SID Bank also offered complementary financial services to encourage development projects aimed at improving living conditions in urban and rural areas, economic and social cohesion and environmental protection. By providing favourable long-term financing (the maturity of the loans ranges from 5 to 20 years) for these purposes, SID Bank has indirectly brought an increase in the amount of public contracts awarded, which is a significant stimulus to economic growth. The local authorities are able to combine the funds from SID Bank's programme with funding from the European cohesion policy for the 2007-2013 period. The new financial structures offered by SID Bank under this programme are vital to the optimal allocation of financing in terms of maturity (and thus a reduction in financing costs), which should have a positive impact on decisions to go ahead with investment projects, and thus indirectly on the generation of demand for the products and services of the economic sectors in question, including those that are prioritised. In upgrading the programme SID Bank wanted to close on the specific attributes that would impact local authorities' capacity to absorb dedicated long-term funds.

Target groups of final beneficiaries

SID Bank financed a total of 904 legal entities established in Slovenia in 2012, either directly or indirectly via banks, in the total amount of EUR 725 million. The eligible costs of the investments and projects financed by SID Bank totalled EUR 835 million, its funds accounting for 86.8% of the total. The funds were earmarked primarily for job preservation and job creation, corporate growth, reduction of pollution and greater environmental protection.

In terms of the primary purpose, development of economic competitiveness accounted for 67.5% of new loans in total value terms. In terms of corporate size, a total of 715 SMEs established in Slovenia (86.2% of all borrowers) received support in the amount of EUR 227.2 million (31.3% of total new loans), of which 134 were sole traders (18.7% of all SMEs), who received EUR 14.6 million (6.4% of total new loans for SMEs).

In the regional breakdown of loans approved for borrowers established in Slovenia, borrowers from Central Slovenia accounted for the largest proportion (34.5%), followed by borrowers from Savinjska (22.5%), Podravska (10.7%), Gorenjska (8.2%), Goriška (7.4%), Pomurska (3.7%) and other regions (13%).

Firms in the manufacturing sector were prevalent among borrowers (51.9% of new loans in value terms), followed by wholesale and retail trade (11.4%), financial and insurance activities (9.5%) and other sectors. In the manufacturing sector 20.8% of all new loans went to firms involved in the manufacture of fabricated metal products except machinery and equipment, followed by the manufacture of electrical equipment (19.8%), the manufacture of chemical and chemical products (8.4%), the manufacture of food products (8.2%), the manufacture of computer, electronic and optical products (6.5%) and the manufacture of basic metals (5.8%).

Promotional-development platform

The promotional-development platform is a technology developed by SID Bank to carry out financial measures under national and European public policy based on basic and derivative refundable forms of promotion (e.g. loans with or without elements of state aid).

In 2012 the Bank undertook a pilot project in the promotional-development platform, and agreed on the provision of microfinance in the amount of EUR 10 million with the Ministry of Economic Development and Technology as part of the third package of the Economic Promotion Programme. This is the first example of product integration in the public promotional system, the first effects of which are anticipated in 2013.

The implementation of the financial engineering measure to promote technological development projects in 2011-2013 as a pilot project in the promotional-development platform was a success in 2012 from the point of view of the realisation of the measure, and from the point of view of the initial assessment of the anticipated effects of the projects financed. The portfolio of loans made to firms on this basis amounted to EUR 98.4 million as at 31 December 2012, EUR 32.8 million of which comprised funds from the Ministry of Economic Development and Technology. SID Bank supported 19 projects with a total value of EUR 154.3 million with such funds. The weighted average maturity of the loans was 9.2 years. The weighted average nominal annual interest rate on the loans was 2.86%. The ministry funding and the funding from the European Investment Bank played a key part in reducing financing costs for final beneficiaries. Every euro of funding from the Ministry of Economic Development and Technology yielded 3 euros of primary lending potential, and 4.7 euros of project support, or if the first loss mechanism is taken into account, one fiscal euro secured 7.3 euros of project support, which according to calculations suggests savings of public funds as a result of the promotional-development platform compared with traditional subsidies.

The Bank thereby improved access to long-term financing for development projects based on in-house research and development activities by firms to increase their innovative and competitive capacities, including their entry into new markets and new links. By introducing refundable forms of financing and combined funding, the Bank is ensuring more favourable lending terms (maturity, interest rate, collateral) and a multiplier and revolving effect on state budget funds.

6.5.2 Asset liability management

For liquidity management reasons, in 2012 SID Bank primarily invested in short-term deposits at domestic and foreign commercial banks and in other short-term and medium-term debt instruments of issuers with high credit ratings. Securities transactions were concluded as an alternative investment to complement the core line of business, for the needs of liquidity management, not for trading purposes.

In its investing the Bank gives priority to investments that it can use as collateral for repo transactions, and investments that count towards the first-bucket liquidity ratio on the basis of Bank of Slovenia regulations or allow access to ECB liquidity. SID Bank operates on the financial markets of EEA and OECD members,[20] and trades with foreign counterparties with an international rating of at least BBB-[21] and with Slovenian banks. SID Bank does not usually hold investments where settlement is not undertaken by an independent institution.

SID Bank's liquidity management investments amounted to EUR 645 million at the end of 2012, or 15.8% of total assets. Half of this comprised the securities portfolio in the amount of EUR 309.8 million, and the other half investments in deposits in the amount of EUR 335.2 million. The investments mostly consist of Slovenian and foreign government bonds, marketable bonds of other issuers and deposits. The majority of the investments are euro-denominated.

SID Bank's investment policy is to invest in investment-grade assets. Almost 75% of its investments had a rating of at least A- as at 31 December 2012. The deposits are placed with foreign commercial banks with a suitable international credit rating, and with Slovenian banks. Investments with a fixed interest rate accounted for more than 93% of total investments for liquidity management purposes as at 31 December 2012.

For more on the management of liquidity risk and interest rate risk, see Section 3 of the accounts.

The currency breakdown of the investments is matched with the currency breakdown of SID Bank's funding, and is coordinated with the set limits. The Bank's policy in this area is for a foreign exchange position that is as closed as possible. The Bank uses currency derivatives in a very limited extent, solely for hedging currency risk.

Borrowing

As a specialist banking institution under the ZSIRB SID Bank primarily obtains long-term funding on the international and domestic financial markets. In raising its funding SID Bank chooses borrowing instruments that allow for greater adaptability to the needs of financing. Its borrowing is therefore

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20 EEA: European Economic Area;
OECD: Organisation for Economic Co-operation and Development.

21 Rating by S&P or comparable rating by another agency.

diversified in terms of maturity, size and issue/disubursement dynamics. The Bank endeavours to obtain long-term funding that is comparable in price terms to government funding, allowing for appropriate premiums over sovereign borrowing.

EUR thousands	2012	2011	Index 2012/2011
Deposits	44,306	119,503	37.1
Borrowings (loans)	2,074,682	2,116,704	98.0
Issued securities	1,406,725	1,404,906	100.1
Total as at 31 Dec	3,525,713	3,641,113	96.8

In order to be able to offer firms and commercial banks long-term financing at the most favourable terms, SID Bank borrowed via various financial instruments in 2012, raising the vast majority of its funding on the international financial markets.

Having cooperated successfully with the European Investment Bank in the past, SID Bank concluded two long-term loans in the amount of EUR 50 million with it in 2012, the funds being fully disbursed by the end of the year. In 2012 the Bank also raised funding from long-term loans under agreements concluded in previous years with the Council of Europe Development Bank, Germany’s development bank (KfW) and the European Investment Bank. The total disbursement of these loans was EUR 126 million.

In September SID Bank issued a one-year bond with a nominal value of EUR 150 million. In October it increased the size of the bond issue to EUR 210 million. The bond was issued on the international financial market, and is listed on the Vienna stock exchange. The Bank was thus the first Slovenian issuer to enter the international capital market since the sovereign downgrading and the resulting downgrading of SID Bank in summer 2012. The bond was issued at very favourable terms, although the market situation in 2012 was adverse, and deteriorated further during the year as a result of the global crisis and Slovenia’s sovereign downgrading. SID Bank raised favourable funding, which it redirected into long-term loans made for the purposes set out in the ZSIRB, while raising its own profile among foreign investors.

In addition to issuing a one-year bond, SID Bank raised EUR 155 million of funding in the 3-year LTRO tender at the ECB. On the foreign capital market it extended the bilateral loan from one of the commercial banks in the amount of EUR 20 million. SID Bank also borrowed from commercial banks in Slovenia on the interbank money market in smaller amounts.

SID Bank also devotes much attention to managing its banking liabilities, primarily to mitigate refinancing risk. In 2012 SID Bank thus prepaid certain issued short-term and long-term bonds on the domestic capital market and on the foreign capital market.

6.5.3 Operations under the Republic of Slovenia’s authorisation

Insurance against non-marketable risks

As an authorised institution, on behalf of and for the account of the Republic of Slovenia SID Bank insures against commercial and non-commercial or political (non-marketable) risks that given their nature and level of risk the private reinsurance sector is not willing to take up or has limited capacity to take up. EU regulations class commercial and political risks with a maturity of more than 2 years in OECD countries and all risks in non-OECD countries as non-marketable. The role of state is crucial in the area of non-marketable risks, as the majority of export transactions, particularly medium-term, would not be undertaken without such insurance. Exporters and investors can also mitigate their operational risks in higher-risk countries by means of appropriate insurance, thereby creating economic security.

EUR thousands	2012	2011	Index 2012/2011
Volume of insurance operations	942,324	1,203,430	78.3
Net exposure (31 Dec)[22]	689,273	747,571	92.2
Premiums	6,941	9,130	76.0
Potential claims	3,467	805	430.6
Claims under consideration	10,309	3,972	259.6
Claims paid	(6,679)	(1,171)	570.6
Number of claims	4	4	100.0
Recourse	490	94	521.7
Surplus of income over expenses	2,122	5,530	38.4
Contingency reserves	131,870	129,749	101.6

In carrying out its insurance operations on behalf of and for the account of the Republic of Slovenia against non-marketable risks, the Bank has consistently disclosed an increase in the volume of insurance in recent years. The crisis saw a reversal in the growth trend in 2011, and the volume of insurance in 2012 again declined relative to the previous year. Although the volume of insurance operations declined in 2012, SID Bank provided appropriate support to the economy, thereby achieving satisfactory results, which was reflected primarily in a rise in the number of policies issued. The number of policies issued in 2012 was up 33% on the previous year. This was an indication of lower-value policies being concluded, even as their number rose.

Volume of insurance operations

The volume of insurance operations against non-marketable risks amounted to EUR 942.3 million in 2012, down 21,7% on the previous year. This was 10.8% of the limit on potential new annual liabilities defined in the ZZFMGP.[23]

The weak position of the Slovenian economy brought a reduction in the volume of insurance operations. The financial and economic crisis resulted in reduced export volume, and made it more difficult to obtain financing for such transactions. In addition it should be noted that the majority of the major construction and engineering firms that used to carry out investment work in the rest of the world collapsed in the crisis. At the same time firms are reducing the insurance costs of their investments in the rest of the world or cancelling contracts previously concluded.

Insurance of outward investments in the amount of EUR 488.7 million accounted for the largest proportion of the volume of insurance operations (51.9%), followed by reinsurance of short-term export credits (renewable insurance of non-marketable risks) and insurance of short-term guarantees in the total amount of EUR 441.8 million (46.9%).

[22] Exposure takes account of all firm commitments to issue insurance policies.

[23] Under the limit prescribed by the ZZFMGP in connection with new liabilities (new insurance operations) assumed in a particular calendar year, the liabilities may not exceed one-third of the most recent officially determined value of Slovenia's annual exports of merchandise and services (exports stood at EUR 26,104 million in 2011; source: IMAD 2012).

The fluctuation in the volume of insurance operations is very similar to that at a global level. It is the result of the decline in corporate investment and investment cycles, the collapse of certain major firms that undertook such transactions in the rest of the world, particularly in the construction sector, and the convergence of certain countries (Croatia, Serbia) with the EU, which has reduced their risk. Another factor has been the increased competitiveness of the Chinese economy, which is superseding Slovenian exporters.

Russia accounted for the largest proportion of insurance of short-term export credits, investments and secured medium-term loans in 2012, followed by Serbia, Bosnia and Herzegovina, Croatia, Ukraine, Kazakhstan, Macedonia, Belarus, the USA, and other countries.

Insurance of short-term export loans/credits and guarantees

In the insurance and reinsurance of export credits, guarantees and preparations for exports, the volume of short-term insurance stood at EUR 441.8 million, up 0.7% on 2011. The increase was partly the result of the decision by private insurance corporations to exit certain markets and sectors because of the crisis, and partly the result of the increased risk of customer default faced by exporters. Another factor in the increase was the renewed growth in exports and the resulting increase in credits insured with primary insurers.

The withdrawal of the private reinsurers meant that their place was taken by SID Bank as the authorised institution, which brought an increase in the volume of reinsurance of short-term credits against non-marketable risks. Reinsurance of non-marketable short-term credits where SID Bank acts as the reinsurer of such credits for Slovenian insurance corporations when they are unable to obtain reinsurance coverage on the private market frees up reinsurers' capacities.

The majority of short-term insurance relates to insurance of short-term revolving export credits on the basis of reinsurance contracts. On the basis of these contracts SID Bank only covers those risks that private reinsurers are unable to accept for reinsurance because of a shortfall in available capacity (non-marketable risks). A small proportion relates to insurance of individual export transactions.

Insurance of medium-term export credits

The small number of projects realised each year and their size means that the volume of medium-term export credits insured varies from year to year. The volume of insurance of medium-term export transactions (credits and guarantees) amounted to EUR 11.9 million in 2012, down 66.3% on the previous year. The main reason for the relatively small number of individual projects supported that require medium-term insurance, and also financing in general, was the change in the structure of the Slovenian economy.

A major factor in the decline in medium-term insurance was the decline in construction in Russia. The decline in business recorded by Slovenian firms was also the result of the more competitive lending offered by Russian banks compared with Slovenian banks. As a result of the slow recovery of the Slovenian economy and the financial sector and the subsequent increased difficulty in obtaining new export business, there has been no sign of increased demand among exporters for insurance of medium-term export credits in south-eastern Europe.

Insurance of outward investments

The volume of outward investments insured amounted to EUR 488.7 million in 2012; this amount comprises renewals of previously insured investments, which actually entail newly insured investments, and newly insured outward investments. The volume was down 33% on the previous year, primarily as a result of the downturn in corporate investment cycles, certain key countries' convergence with the EU and the consequent reduced risk of servicing insured loans and, above all, the premature cancellation of certain major insurance policies.

New insurance relates exclusively to the insurance of non-shareholder loans or loans to subsidiaries of Slovenian investors in the rest of the world, within which commercial and non-commercial risks may be covered. In 2012 there were newly insured investments in construction and metal processing, in manufacturing, food and tourism, textiles, clothing, cars, electronics and telecommunications, in trade in motor fuels, and in domestic appliances.

The diminishing risk of the target countries is reducing the demand for insurance of equity holdings. There is also a cost impact, as loan insurance is rising in price. There were thus no new insurance operations for equity holdings in 2012.

The decline in the volume of insured investments in 2012 was the result of regular expiries of insurance policies, both the insurance of equity holdings and non-shareholder loans. Cost cutting meant that the largest insurance policy in the investment insurance portfolio (EUR 226 million) was cancelled a year prematurely, and three policies with a total value of approximately EUR 67 million were not renewed at the policy anniversary. Their size meant that they had a significant impact on the volume of insured investments, exposure and premiums. The regular servicing of insured loans is also having an impact, as a result of which both volume and exposure are declining.

Despite the crisis, the volume of investment insurance is expected to increase in 2013 as a result of non-shareholder loans. Alongside the traditional countries for investment insurance (the former Yugoslav republics and the countries of south-eastern Europe), the regional dynamics of investments by Slovenian investors suggest that there is potential for new insurance outside the previously typical countries. Thanks to the crisis, demand for loan insurance can also be seen in lower-risk countries, and in 2012 insurance was taken out in the USA and Turkey.

Exposure

Exposure from current insurance policies amounted to EUR 686.5 million at the end of 2012. Exposure from firm insurance commitments, which under the ZZFMGP is included in the total net exposure, amounted to EUR 2.8 million.

Total exposure from insurance operations for the account of the state and from issued firm insurance commitments amounted to EUR 689.3 million at the end of 2012, down 7.8% on the end of 2011. The decline in exposure is the result of regular expiries of insurance policies (secured medium-term credits, equity holdings and non-shareholder loans), and also from premature cancellations. The main reasons are in the diminishing risk of the target countries, which is reducing the demand for insurance of equity holdings. There is also a cost impact, as loan insurance is rising in price.

The exposure amount represents 27.6% of the limit defined in State Budget 2012 Implementation Act and 2.6% of the limit defined in the ZZFMGP.[24]

The largest exposures in the insurance portfolio in 2012 were disclosed against Russia (27.3%) and Serbia (23.6%), which required additional monitoring of the political and economic situation in these countries.

Insurance technical result and items

Premium from insurance against non-marketable risks amounted to EUR 6.9 million in 2012, down 24% on 2011. The decline in insurance premium was primarily the result of a decline in the volume of insurance of outward investments. Income from processing fees is negligible, because SID Bank refunds the amount or includes it in the premium in the case of individual export transactions or investments in accordance with its business policy and current price lists.

Claims paid in 2012 were 5.7 times higher than in the previous year at EUR 6.7 million. The majority of claims paid related to insurance of a bank guarantee against the risk of the guarantee being called without entitlement (Bosnia and Herzegovina) and to insurance of a loan to a foreign bank (Kazakhstan), while a lesser proportion (18.7%) related to claims from reinsurance of short-term export credits (Serbia, Uzbekistan, Ukraine , Croatia, Romania, Macedonia, Bosnia and Herzegovina, and Iran).

Claims under consideration (claims filed) amounted to EUR 10.3 million as at 31 December 2012. The majority of claims under consideration comprises medium-term transactions in the total amount of EUR 10 million, while a figure of EUR 0.3 million comprises claims from receivables covered by short-term reinsurance.

At EUR 3.5 million, potential claims in 2012 were 4.3 times higher than the 2011 figure of EUR 0.8 million, while the majority of potential claims relates to reinsurance and insurance of short-term receivables.

The technical result for the account of the Republic of Slovenia was positive, despite claims payouts. The surplus of income over expenses amounts to EUR 2.1 million, down 61.6% on the previous year.

Contingency reserves

The contingency reserves constitute important capacity for SID Bank and for the Republic of Slovenia in insurance against non-marketable risks, before claims from insurance for the account of the Republic of Slovenia are paid out from the state budget.

The aim of the investment policy for the contingency reserves is to maintain the ability to settle insurance claims. The contingency reserves are held in liquid assets equivalent to the sum of potential claims and claims under consideration from non-marketable insurance, or at least 20% of the invested funds. Liquid assets comprise debt securities quoted on a regulated market, and all

[24] The limit on the Bank's exposure from insurance against non-commercial, medium-term commercial and short-term commercial non-marketable risks set out under the ZIPRS, i.e. the exposure from current insurance and commitments, is EUR 2,500 million.

Under the limit prescribed by the ZZFMGP in connection with the amount of assumed valid liabilities from insurance operations, active reinsurance and retrocession, other operations, guarantees and other sureties, the figure may not exceed the most recent officially determined value of Slovenia's annual exports of merchandise and services (exports stood at EUR 26,104 million in 2011; source: IMAD 2012).

other forms of investment whose residual maturity is less than one year. The amount of liquid assets varies, and depends primarily on the projected payout of claims and the resulting liquidity position for the contingency reserves.

The positive result generated in insurance operations in 2012 thus brought an increase in the contingency reserves, which amounted to EUR 131.9 million at the end of 2012. Contingency reserve assets amount to EUR 136.7 million in total.

Interest Rate Equalisation Programme

In accordance with the ZZFMGP and on behalf of and for the account of the Republic of Slovenia, as an authorised institution SID Bank provides the Interest Rate Equalisation Programme (IREP) for export credits that comply with the OECD arrangements. SID Bank holds a contract with the Ministry of Finance for the provision of the IREP and the management of its assets.

The IREP facilitates the provision of export credits at fixed interest rates that are lower than the market rates. SID Bank concludes interest rate swaps with the participating banks, thereby providing them with funding at fixed interest rates. SID Bank covers the interest rate risk arising in the IREP by means of reverse interest rate swaps concluded with banks whose international credit rating is no lower than BBB- at S&P.

The purpose of the interest rate swap is to protect the participating bank's exposure to interest rate risk arising from the approval of an export credit at a fixed interest rate. Because of the fixation of the interest rate, the participating bank is entitled to an equalisation factor of up to 1% (expressed as an annual interest rate and dependent on the maturity of the credit), which the lending bank transfers in full to the final borrower. The interest rate for the final borrower (a foreign customer of Slovenian goods or services) is no lower than the OECD's reference interest rate, the CIRR.[25]

Guarantee scheme for corporates

The Republic of Slovenia Guarantee Scheme Act (hereinafter: the ZJShemRS) set up a system in 2009 for issuing government guarantees for the liabilities of companies rated A, B or C from long-term loans raised at commercial banks. The purpose of the law was to relieve the credit crunch resulting from the global financial crisis, which reduced access to commercial banks' resources, thereby reducing the inflow of cash into the Slovenian economy. Of the total guarantee quota of EUR 1.2 billion, a total of EUR 809.4 million had been assigned to banks in 15 auctions by 31 December 2010, when the legal deadline for issuing guarantees under the scheme passed.

In line with its legal authorisations SID Bank again managed the portfolio deriving from the ZJShemRS in 2012. As a result of the deterioration in business conditions, which meant that companies were unable to consolidate their performance as expected when the measure was introduced, the vast majority of companies embarked on a restructuring of the credit portfolio. The commercial banks therefore discussed the restructuring of loans with government guarantees, and verified and coordinated their proposals with SID Bank in line with the legal requirements. When the companies failed to consolidate their performance, the commercial banks made use of their legal possibilities and exercised the credit protection, i.e. the government guarantee. In line with its authorisations SID Bank obtained, reviewed and coordinated the documentation for modifying the terms of government-guaranteed loans and processed the claims for calling guarantees. Where it identified breaches resulting in a loan agreement being declared null and void, the repayment of a

25 Commercial Interest Reference Rates.

called guarantee or the payment of a contractual penalty, SID Bank filed motions with the State Attorney's Office for a voiding suit, a suit for the repayment of a called guarantee or a suit for the payment of a contractual penalty.

In 2012 SID Bank received and diligently reviewed 174 applications for the modification of loan terms. It issued 129 approvals for modifying the terms of government-guaranteed loans. It rejected 22 applications where breaches of law were identified, while 23 applications were still being processed at the end of 2012 because of requests for extra documentation.

SID Bank received 96 requests for issued guarantees to be called in 2012. A total of 69 requests for calling were granted to commercial banks by the Ministry of Finance in 2012 having met the conditions under the ZJShemRS, based on which a total of EUR 23.3 million was paid out. A total of EUR 46.7 million was paid out to banks by the Ministry of Finance between 2009 and 2012 on the basis of 141 requests for calling.

At the end of 2012 there were 336 loan agreements secured by government guarantee still active at the commercial banks, the stock of principal amounting to EUR 323.3 million as at 31 December 2012.

Guarantee scheme for private individuals

The Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia (hereinafter: the ZJShemFO) allowed private individuals to obtain a government guarantee for loans of up to EUR 100,000 or up to EUR 10,000 depending on the category of borrower. As a government anti-crisis measure the guarantee scheme for private individuals covered four categories of borrower: temporary employees, first-time home buyers, young families and the unemployed. The total guarantee quota to be allocated under the ZJShemFO between 2009 and the end of 2010 was EUR 350 million, of which EUR 50 million was earmarked for unemployed borrowers. The legal deadline for issuing government guarantees under this law was 31 December 2010. There were 310 loans outstanding as at 31 December 2012, and the total stock of principal was EUR 6.8 million.

SID Bank received five requests for guarantees to be called in 2012 (bringing the total between 2010 and 2012 to 73). Seven requests for calling (five received in 2012 and two in 2011) were granted to commercial banks by the Ministry of Finance in 2012 having met the conditions under the ZJShemFO, based on which a total of EUR 32 thousand was paid out. All the guarantees paid out related to the category of unemployed borrowers. SID Bank initiates a recovery procedure for the guarantees paid out, provided that the conditions have been met.

Guarantees for investments

The aim of the Republic of Slovenia Guarantees for Financial Investments by Companies Act (ZPFIGD) is to ease corporate access to working capital and to funds for investment, which will strengthen the development and competitiveness of Slovenian companies. As prime credit protection, a government guarantee is an instrument for improving access to financing corporate development projects.

On the basis of the announcement of the second tender of government guarantees for corporate liabilities from loans raised at banks and savings banks earmarked for financing investments in development projects, SID Bank received two applications for the issue of guarantees in the total amount of EUR 2.2 million in 2012. The guarantees were issued for two investments by companies in Central Slovenia, with a total value of EUR 4.5 million. The investments were in tourism development and the construction of a retirement home, and were expected to generate new jobs and increased added value per employee. The total stock of loans supported by government guarantee was EUR 17.5 million at the end of 2012, within the framework of which the government guarantee amounted to EUR 13.1 million.

Amendments to the ZPFIGD entered into force in July 2012. Because the new arrangements for the implementation of the ZPFIGD were only published at the end of 2012, the amendments had no impact on the implementation of the measure in 2012. The amended law is expected to have an impact in 2013.

Management of emission allowances and Kyoto units

Pursuant to Article 126c of the Environmental Protection Act (ZVO-1), in the second half of 2012 SID Bank began acting as the official auctioneer of greenhouse gas emission allowances in accordance with Commission Regulation 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and the Council establishing a scheme for greenhouse gas emission allowances trading within the Community, amended by Commission Regulation 1210/2011.

In auctions organised by the joint auctioning system of 24 EU members (the European Energy Exchange), SID Bank sells quantities of emission allowances on behalf of the Republic of Slovenia (set out by the aforementioned regulation, the relevant European Commission decisions and the auction timetable) and transfers the proceeds to the account of the Republic of Slovenia. Having carried out all the requisite activities for beginning the implementation of this function on time (e.g. opening all the necessary accounts for the cash leg of the transaction, concluding the requisite agreements with the Ministry of Agriculture and the Environment, the joint auctioning system and the clearing and settlement system), SID Bank participated in the first auction of emission allowances, which only ten EU members succeeded in doing, and met all of its obligations with the diligence of a good expert.

Under Article 142 of the ZVO-1, SID Bank is also authorised to carry out the Kyoto units and emission allowances programme on behalf of and for the account of the state. The authorisation is not yet being exercised, as the government has not yet approved this programme.

Transparency of financial relations between SID Bank and the state

To ensure the separate recording of the individual activities pursued by SID Bank under Republic of Slovenia authorisation, the Bank has put in place a system of cost centres and cost drivers against which transactions occurring in the pursuit of individual business activities are recorded. This is also the basis for determining the direct expenses of an individual activity. For insurance against non-marketable risks and the Interest Rate Equalisation Programme, in which the Bank also manages assets allocated for management, a separate statement of financial position is compiled (point 2.6.2 of Section II).

The table discloses the total (direct and indirect) revenues and expenses for individual activities generated in 2012. The revenues for an individual activity represent the fees that SID Bank receives for pursuing the activity on the basis of contracts or provisions of law. The indirect expenses for an individual activity are determined on the basis of criteria set out in a bylaw, the Criteria for allocating indirect costs of activities under Republic of Slovenia authorisation.

Activity

EUR thousands	Income	Expenses
Insurance against non-marketable risks	1,910	(1,923)
Interest Rate Equalisation Programme	277	(515)
Guarantee scheme for corporates	9	(95)
Guarantee scheme for private individuals	54	(41)
Guarantees for investments	17	(142)
Auctions of emission allowances	3	(12)

6.6 Performance of the SID Bank Group

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

For information about SID – Prva kreditna zavarovalnica d.d., Ljubljana, see point 2.2.

EUR thousands	2012	2011	Index 2012/2011
Total assets	65,398	67,911	96.3
Shareholder equity	24,058	22,857	105.3
Gross claims incurred	12,752	19,070	66.9
Loss ratio	62%	91%	
Net profit	2,689	5,607	48.0
Volume of insurance operations	5,241,155	5,225,603	100.3

The economic crisis and debt crisis, which began to mount again in the middle of 2011 and continued in 2012, had a major impact on the environment in which PKZ operates. The low activity of the Slovenian economy and its foreign trade partners affected the volume of insurable business in 2012. As GDP fell in Slovenia, Italy and Croatia, grew slowly in Germany and recorded high growth in Russia alone, PKZ succeeded in maintaining its level of insurance business from 2011.

The increase in payment indiscipline meant that PKZ operated in a very uncertain environment in 2012. Payment discipline recorded its largest improvement in 2012 in Russia, was unchanged in Germany, and deteriorated in Slovenia, Italy and Croatia, which PKZ took into account when approving limits for these countries.

There was further evidence in 2012 of the level to which credit insurance depends on economic fluctuations, the volume of business having remained at the level of 2011 while premium declined by 3%. Non-life insurance premium of insurance corporations established in Slovenia increased by 0.2% in 2012.

By expanding certain contracts and by attracting new policyholders, PKZ succeeded in maintaining its volume of insurance business at the 2011 level in the harsher economic climate in 2012. In 2012 healthy growth was again limited by low corporate credit ratings (insurance risks) compared with the pre-crisis levels.

PKZ did not fully meet its expectations of the volume of insurance business and premiums in 2012, as the macroeconomic economic assumptions were expected to be more favourable than when the plans were being drawn up. The forecasts of the relevant institutions were envisaging a further increase in GDP in Slovenia when the plans were drawn up in 2012.

Premium levels remained high, in keeping with the risks, but were down on 2011, which resulted in the 3% decline in premium. These developments were the result of the expansion of contracts to insurance for customers in markets with lower risks and thus lower average premium levels, the expansion of contracts with lower average contractual levels and adjustments in contractual premium levels.

In the adverse liquidity situation PKZ managed to maintain a stable loss ratio, primarily by applying stricter conditions for insurance of credits and by following the guidelines and resolutions of anti-crisis measures adopted in the past. The number of claims fell, while incurred claims were down on 2011. Claims payouts and the favourable claims history brought a reduction in the outstanding claims reserve. This was largely the result of the development of claims in 2010 and 2011 being less unfavourable than could be estimated at the end of 2011. As a result of these developments, net income from premiums exceeded net expenses for claims by EUR 4.2 million (2011: EUR 7 million, when the decline in the reserve was larger).

The loss ratio was more favourable than planned, both for previous years and for 2012. The claims payout was relatively large last year, but because the filed claims and announced arrears in payment do not indicate any deterioration compared with 2011, PKZ assesses the loss ratio for 2012 as stable. Because the actual claims situation is only revealed after several months of delay, and because this is affected by future uncertain economic developments, this uncertainty is to a certain extent captured in the estimated loss ratio.

Net profit was also significantly larger than forecast in 2012, mostly as a result of the more favourable development of previous claims years than originally expected. Given the continuing uncertainty, when the report was compiled PKZ had already earmarked a portion of its profit for the reserves and strengthened its capital, thereby preparing for the difficult business conditions anticipated in 2013.

Net profit after taking account of the mandatory change in the credit risk equalisation reserve amounted to EUR 1.7 million (2011: EUR 4.6 million), while the credit risk equalisation reserve increased by EUR 0.9 million during the year (2011: EUR 1 million). When the report was compiled the net result for 2012 had already been used to increase other profit reserves (EUR 0.9 million).

In 2013 PKZ will again explore its market opportunities for new and upgraded forms of credit insurance, partly in combination with existing reinsurance programmes (launched in 2009, some of which remained in effect in 2012 and will continue to do so in 2013) and with those that it could acquire via the controlling company.

PKZ introduced a special simplified programme for small businesses in 2012. It is also planning to improve its services for medium-size companies on this basis. After Croatia joins the EU, and other conditions are put in place, PKZ intends to begin providing insurance operations directly on that market.

6.6.2 Prvi Faktor Group

For more about the Prvi Faktor Group, see point 2.2.

Prvi faktor, Ljubljana EUR thousands	2012	2011	Index 2012/2011
Total assets	135,223	137,176	98.6
Shareholder equity	4,812	4,209	114.3
Net profit	603	962	-
Purchased receivables	267,238	236,902	112.8

Prvi Faktor Group EUR thousands	2012	2011	Index 2012/2011
Total assets	315,038	338,485	93.1
Shareholder equity	8,722	6,443	135.4
Net profit	1,090	1,859	-
Purchased receivables	929,303	908,217	102.3

The adverse economic situation in south-eastern Europe had an impact on the performance of the Prvi Faktor Group in 2012. The liquidity position and the quality of the credit portfolio deteriorated slightly in 2012 compared with the previous year.

Purchased receivables at the Prvi Faktor Group amounted to EUR 929.3 million in 2012. The figure was up 2.3% on 2011, and was 22.3% higher than the forecast in the annual plan. The subsidiaries accounted for 71.2% of the turnover of the Prvi Faktor Group. All the companies exceeded their forecast turnover in 2012. Prvi faktor, Zagreb continues to generate the largest proportion of the group's turnover. It accounted for 39.6% of the total in 2012, down 2.3 percentage points on the previous year.

The majority of the receivables financed by the Prvi Faktor Group arose on the basis of the delivery of goods or the rendering of services between entities in Slovenia. Domestic factoring accounted for 84.9% of total turnover last year (2011: 87.9%), export financing for 9.9% and import financing for 5.3%.

The group's total assets at consolidated level amounted to EUR 315 million as at 31 December 2012, down 6.9% on 31 December 2011. According to total assets, the largest company in the Prvi Faktor Group is Prvi faktor, Zagreb, whose total assets at the end of 2012 amounted to EUR 140.8 million. The increase in total assets was slightly less than the increase in turnover, which points to a slight improvement in the efficiency of asset management.

The total assets of Prvi faktor, Ljubljana amounted to EUR 135.2 million at the end of 2012, down 1.4% on the previous year.

Despite the adverse situation all companies in the group generated positive operating results in 2012, while the group's overall result was also positive. The performance of the Prvi Faktor Group can be assessed as good.

6.6.3 Pro Kolekt Group

Pro Kolekt, družba za izterjavo, d.o.o. (hereinafter: Pro Kolekt, Ljubljana) was established by SID in 2004 and is under its 100% ownership. The company's nominal capital amounted to EUR 418.8 thousand as at 31 December 2012. The nominal value of SID Bank's equity holding in Pro Kolekt, Ljubljana was EUR 418.8 thousand.

Pro Kolekt, Ljubljana specialises in extra-judicial recovery. The company was established primarily for the extra-judicial recovery of cases for the needs of the SID Group. Today the company accepts cases of Slovenian creditors and foreign creditors from the rest of the world. Foreign export credit agencies and recovery agencies are increasingly acting as agents for Pro Kolekt, Ljubljana. Pro Kolekt, Ljubljana also represents creditors in judicial recovery, composition and bankruptcy proceedings, and provides credit rating information.

The company's director is Mr Leon Zalar. SID Bank's management board acts as the company's general meeting.

The Pro Kolekt Group consists of the parent company Pro Kolekt, Ljubljana and a network of the following subsidiaries in south-eastern Europe:
- Pro Kolekt d.o.o., Zagreb;
- Pro Kolekt d.o.o., Skopje;
- Pro Kolekt, društvo za naplatu duga d.o.o., Belgrade;
- Pro Kolekt Credit Management Services Bucuresti S.R.L., Bucharest;
- Pro Kolekt Sofia OOD, Sofia;
- Pro Kolekt d.o.o., društvo za financijsko posredovanje, Sarajevo.

Pro Kolekt, Ljubljana EUR thousands	2012	2011	Index 2012/2011
Total assets	584	469	124.5
Shareholder equity	255	294	86.7
Net profit	(39)	26	(150.0)
Value of debts recovered	5,064	8,818	57.4

Pro Kolekt Group EUR thousands	2012	2011	Index 2012/2011
Total assets	4,275	4,211	101.5
Shareholder equity	272	343	79.3
Net profit	(22)	10	(220.0)
Net profit/(loss) of majority interest	(31)	(15)	-
Value of debts recovered	12,294	17,643	69.7

The continuing deterioration in the liquidity position reduced the chances of successful recovery in 2012, and sharply constrained the value of transactions between companies. This had an impact on the Pro Kolekt Group, and resulted in a rise in the number of recoveries ordered, but a significant decline in the total value of debt recovered. There was also a rise in the number of cases successfully closed, but a decline in the average value of the closed cases. The actual amounts recovered were down approximately 10% on the previous year.

In 2012 the Pro Kolekt Group again focused on intensively marketing the products and services that it offers to its clients, which strengthened its profile in south-eastern Europe and also further afield in Europe. In keeping with clients' requirements, particular attention was given to a personal approach in handling individual cases, which deepened relations with clients and with local external partners in the form of recovery agencies. In the credit rating field the company was particularly successful in south-eastern Europe, where it has a permanent presence on the ground and a large database of debtors. The company has developed its PK-NET online portal to this end, with a debtors' blacklist, online monitoring or recoveries, and credit rating information using SID Bank methodology.

The Pro Kolekt Group accepted 3,033 new cases for recovery in 2012 with a total value of EUR 40.2 million. A total of 1,128 cases were successfully closed, with a total value of EUR 12.3 million. The amount actually recovered totalled EUR 9.4 million.

6.6.4 Centre for International Cooperation and Development

In 2006 SID Bank officially became the joint holder, alongside the state, of the Centre for International Cooperation and Development (the CMSR), with which it had previously worked closely. The foundation's core activities are macroeconomic, political and other analysis of sovereigns, assessments of country risk and publicity activities. In recent years, on the basis of government authorisation, the CMSR has become Slovenia's main institution for technical and operational work in the field of international development cooperation.

The CMSR's governance bodies are the director and the council. The foundation is represented by its director, Mr Gašper Jež. The council has six members. SID Bank's representatives on the council are Mr Sibil Svilan (M.Sc.), who is also the chairman of the council, and Mr Bojan Pecher.
In 2012 the CMSR continued its many years of cooperation with SID Bank, its co-founder and most important business partner.

EUR thousands	2012	2011	Index 2012/2011
Operating revenues	358	388	92.3
Total project value	6,873	5,198	132.2

The CMSR met the majority of its targets in 2012. Its priority was bilateral development cooperation. The CMSR maintained and expanded its network of contacts with countries receiving development assistance and Slovenian contractors that are potential providers of development assistance.

The CMSR allocated all available grants in 2012. It proved itself to be an institution capable of wisely investing budget funds, which were reduced last year, in development projects in the rest of the world via the instrument of official development assistance. This helped to secure export deals for Slovenian companies, generating economic growth and employment, and increasing budget revenues.

Its *Doing Business in Slovenia* publication, available in print form and online on the Slovenian Business Portal, was the main source of income from sales and advertising. The CMSR also published a journal, *International Business Law*, in 2012. In light of an ongoing fall in the number of subscribers, it attempted to end this trend via direct marketing. The CMSR's smaller projects included further online sales of brief analyses via the ISI Emerging Markets portal run by Euromoney magazine.

II. FINANCIAL STATEMENTS

Declaration by the management board on the financial statements of SID Bank and the SID Bank Group

On 26 February 2013 the management board hereby approves the financial statements of SID Bank and the SID Bank Group, and the annual report for the year ending 31 December 2012. The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU.

The management board believes that SID Bank and the SID Bank Group have sufficient resources to operate as going concerns.

The management's responsibilities are:

- to employ relevant accounting policies, and to ensure that they are consistently applied,
- to make use of reasonable and prudent accounting estimates and judgements,
- to appropriately disclose and clarify any material deviations from the accounting standards applied,
- to ensure that the financial statements are compiled on a going-concern basis for SID Bank and the SID Bank Group, unless the winding-up of operations can reasonably be anticipated.

The management board is responsible for maintaining accounting documents and records to disclose the financial position of SID Bank and the SID Bank Group with reasonable accuracy at any time. The management board is also responsible for ensuring that the financial statements have been compiled in accordance with the legislation and regulations of the Republic of Slovenia. The management board must do everything possible to safeguard the assets of SID Bank and the SID Bank Group, and must undertake all necessary action to prevent or detect any fraud or other irregularities.

The tax authorities may audit a bank's operations at any time in the five years after the date that tax was due to be levied, which may result in additional tax liabilities, penalty interest and fines in connection with corporate income tax or other taxes and levies. The management board is not aware of any circumstances that could give rise to any significant liability on this account.

Management board of
SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana

Jožef Bradeško
member

Sibil Svilan, M.Sc.
president

KPMG

Independent Auditor's Report

To the Shareholders of SID – Slovenska izvozna in razvojna banka, d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of SID – Slovenska izvozna in razvojna banka, d.d. which comprise the statement of financial position as at 31 December 2012, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 entity'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 financial statements present fairly, in all material respects, the financial position of SID – Slovenska izvozna in razvojna banka, d.d. as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

mag. Simona Korošec Lavrič
Certified Auditor

Boris Drobnič
Partner

KPMG Slovenija, d.o.o.
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Ljubljana, 2 April 2013

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.

KPMG

Independent Auditor's Report

To the Shareholders of SID – Slovenska izvozna in razvojna banka, d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company SID – Slovenska izvozna in razvojna banka, d.d and its subsidiaries (SID Bank Group), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 about 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 entity'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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the SID Bank Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

mag. Simona Korošec Lavrič
Certified Auditor
Ljubljana, 2 April 2013

Boris Drobnič
Partner
KPMG Slovenija, d.o.o.
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The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.

1. Financial statements of SID Bank and the SID Bank Group

1.1 Income statement

		SID Bank		SID Bank Group	
EUR thousands	Note	2012	2011	2012	2011
Interest income		156,562	157,372	166,736	170,168
Interest expenses		(93,420)	(103,000)	(99,662)	(109,933)
Net interest income	2.4.1	63,142	54,372	67,074	60,235
Dividend income	2.4.2	1,632	2,574	352	0
Income from fees and commissions		1,819	1,954	5,982	6,049
Expenses from fees and commissions		(706)	(894)	(1,333)	(1,762)
Net fee and commission income	2.4.3	1,113	1,060	4,649	4,287
Gains/(losses) realised on financial assets and liabilities not measured at fair value through profit or loss	2.4.4	1,689	(1,598)	1,798	(1,598)
Net gain/(loss) on financial assets and liabilities held for trading		(11)	(3)	(19)	(20)
Gains/(losses) on financial assets and liabilities measured at fair value through profit or loss	2.4.5	21,072	31	21,072	31
Changes in fair value in hedge accounting	2.4.6	2,648	(980)	2,648	(980)
Net foreign exchange gain/(loss)	2.4.7	(5)	6	836	1,213
Net gains/(losses) on derecognition of assets other than non-current assets held for sale		(1)	(4)	(42)	(22)
Other net operating gains/(losses)	2.4.8	2,221	2,766	6,692	9,560
Administrative costs	2.4.9	(7,585)	(7,017)	(14,116)	(13,258)
Amortisation and depreciation	2.4.10	(575)	(588)	(1,009)	(930)
Provisioning	2.4.11	(10,095)	(1,862)	(8,721)	466
Impairments	2.4.12	(69,383)	(41,269)	(72,156)	(44,813)
Profit from ordinary operations		**5,862**	**7,488**	**9,058**	**14,171**
Corporate income tax on ordinary operations	2.4.13	(821)	(1,034)	(2,235)	(3,108)
Net profit for the financial year		**5,041**	**6,454**	**6,823**	**11,063**
Net earnings per share	2.4.14	**1.62**	**2.08**		

1.2 Statement of comprehensive income

		SID Bank		SID Bank Group	
EUR thousands	Note	2012	2011	2012	2011
Net profit for the financial year after tax		**5,041**	**6,454**	**6,823**	**11,063**
Other comprehensive income after tax		**3,176**	**(2,264)**	**3,915**	**(3,482)**
Net gain/(loss) recognised as revaluation surplus in connection with available-for-sale financial assets		3,895	(2,830)	4,855	(4,142)
Other net gains/(losses) in other comprehensive income*		0	0	(177)	(14)
Corporate income tax on other comprehensive income	2.5.7	(719)	566	(763)	674
Total comprehensive income for the financial year after tax		**8,217**	**4,190**	**10,738**	**7,581**

**Foreign exchange changes during consolidation*

1.3 Statement of financial position

		SID Bank		SID Bank Group	
EUR thousands	Note	31 Dec 2012	31 Dec 2011	31 Dec 2012	2011
Cash-in-hand and balances in accounts at central bank	2.5.1	408	41,696	409	41,697
Financial assets held for trading		1	3	1	3
Available-for-sale financial assets	2.5.2	309,755	212,240	333,854	243,646
Loans	2.5.3	3,680,998	3,698,637	3,798,186	3,829,871
- loans to banks		3,031,156	2,997,154	3,057,451	3,018,972
- loans to non-banking clients		649,294	701,410	738,831	810,720
- other financial assets		548	73	1,904	179
Derivatives used for hedging	2.5.4	78,003	58,847	78,003	58,847
Property, plant and equipment	2.5.5	3,664	3,893	7,396	6,863
Investment property		0	0	848	261
Intangible assets	2.5.5	491	222	1,611	1,142
Long-term interests in subsidiaries, associates and joint ventures	2.5.6	11,919	11,919	419	419
Corporate income tax assets	2.5.7	439	1,516	2,978	3,826
- tax assets		439	473	1,456	1,195
- deferred tax assets		0	1,043	1,522	2,631
Other assets	2.5.8	266	243	32,390	32,518
Non-current assets held for sale	2.5.9	2,718	0	2,718	0
TOTAL ASSETS		**4,088,662**	**4,029,216**	**4,258,813**	**4,219,093**
Financial liabilities to central bank	2.5.10	206,592	50,014	206,592	50,014
Financial liabilities held for trading		44	35	44	35
Financial liabilities measured at amortised cost	2.5.11	3,526,884	3,642,146	3,634,230	3,768,376
- deposits from banks		44,301	119,498	44,301	119,498
- deposits from non-banking clients		5	5	5	5
- borrowings from banks		1,924,619	1,966,530	2,030,232	2,091,001
- borrowings from non-banking clients		150,063	150,174	150,063	150,174
- debt securities		1,406,725	1,404,906	1,406,725	1,404,906
- other financial liabilities		1,171	1,033	2,904	2,792
Provisions	2.5.12	14,713	4,621	44,587	36,629
Corporate income tax liabilities	2.5.7	28	248	229	467
- tax liabilities		0	130	201	349
- deferred tax liabilities		28	118	28	118
Other liabilities	2.54.13	177	145	9,956	11,133
TOTAL LIABILITIES		3,748,438	3,697,209	3,895,638	3,866,654
Share capital		300,000	300,000	300,000	300,000
Share premium account		1,139	1,139	1,139	1,139
Revaluation surplus		1,003	(2,173)	897	(3,194)
Profit reserves		37,012	31,299	57,434	50,132
Shares held in treasury		(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including net profit for the financial year)		2,394	3,066	5,029	5,686
TOTAL SHAREHOLDER EQUITY	2.5.14	340,224	332,007	363,175	352,439
TOTAL EQUITY AND LIABILITIES		**4,088,662**	**4,029,216**	**4,258,813**	**4,219,093**

1.4 Statement of changes in equity

SID Bank

2012	Share capital	Share premium account	Revaluation surplus	Profit reserves	Retained earnings (including net profit for the financial year)	Shares held in treasury	Total shareholder equity
OPENING BALANCE IN ACCOUNTING PERIOD (1 Jan 2012)	**300,000**	**1,139**	**(2,173)**	**31,299**	**3,066**	**(1,324)**	**332,007**
Comprehensive income for the financial year after tax	0	0	3,176	0	5,041	0	8,217
Distribution of net profit to profit reserves	0	0	0	5,713	(5,713)	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD (31 Dec 2012)	**300,000**	**1,139**	**1,003**	**37,012**	**2,394**	**(1,324)**	**340,224**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR					**2,394**		

2011	Share capital	Share premium account	Revaluation surplus	Profit reserves	Retained earnings (including net profit for the financial year)	Shares held in treasury	Total shareholder equity
OPENING BALANCE IN ACCOUNTING PERIOD (1 Jan 2011)	**300,000**	**1,139**	**90**	**25,191**	**2,720**	**(1,324)**	**327,816**
Comprehensive income for the financial year after tax	**0**	**0**	**(2,263)**	**0**	**6,454**	**0**	**4,191**
Distribution of net profit to profit reserves	0	0	0	6,109	(6,109)	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD (31 Dec 2011)	**300,000**	**1,139**	**(2,173)**	**31,299**	**3,066**	**(1,324)**	**332,007**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR					**3,066**		

SID Bank Group

2012	Share capital	Share premium account	Revaluation surplus	Profit reserves	Retained earnings (including net profit for the financial year)	Shares held in treasury	Total shareholder equity
OPENING BALANCE IN ACCOUNTING PERIOD (1 Jan 2012)	**300,000**	**1,139**	**(3,194)**	**50,132**	**5,686**	**(1,324)**	**352,439**
Comprehensive income for the financial year after tax	0	0	3,915	0	6,823	0	10,738
Distribution of net profit to profit reserves	0	0	0	7,302	(7,302)	0	0
Other*	0	0	176	0	(178)	0	(2)
CLOSING BALANCE IN ACCOUNTING PERIOD (31 Dec 2012)	**300,000**	**1,139**	**897**	**57,434**	**5,029**	**(1,324)**	**363,175**

2011	Share capital	Share premium account	Revaluation surplus	Profit reserves	Retained earnings (including net profit for the financial year)	Shares held in treasury	Total shareholder equity
OPENING BALANCE IN ACCOUNTING PERIOD (1 Jan 2011)	**300,000**	**1,139**	**273**	**35,671**	**9,096**	**(1,324)**	**344,855**
Comprehensive income for the financial year after tax	**0**	**0**	**(3,482)**	**0**	**11,064**	**0**	**7,582**
Distribution of net profit to profit reserves	0	0	0	14,461	(14,459)	0	2
Other*	0	0	15	0	(15)	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD (31 Dec 2011)	**300,000**	**1,139**	**(3,194)**	**50,132**	**5,686**	**(1,324)**	**352,439**

Foreign exchange changes during consolidation

1.5 Statement of cash flows

		SID Bank		SID Bank Group	
EUR thousands	Note	2012	2011	2012	2011
A. CASH FLOWS FROM OPERATING ACTIVITIES					
a) Net profit or loss before tax		**5,862**	**7,487**	**9,058**	**14,170**
Amortisation and depreciation	2.4.10	575	588	1,009	931
Impairments of property, plant and equipment, investment property, intangible assets and other assets	2.4.12	69,383	41,269	72,156	44,813
Net foreign exchange (gains)/losses		5	(6)	(836)	(1,213)
Net losses on disposal of property, plant and equipment and investment property		1	4	42	22
Other (gains) from investing activities		(1,632)	0	(352)	0
Other (gains) from financing activities	2.4.2	0	(2,574)	0	0
Other adjustments in pre-tax profit		7,458	2,837	6,083	516
Cash flows from operating activities before changes in operating assets and liabilities		**81,652**	**49,605**	**87,160**	**59,239**
b) Decrease in operating assets		**35,124**	**4,192**	**58,585**	**13,645**
Net (increase) in financial assets held for trading		0	(3)	0	(3)
Net (increase) in available-for-sale financial assets		(94,189)	(104,089)	(87,996)	(114,438)
Net decrease in loans		134,995	105,748	152,378	117,104
Net (increase)/decrease in assets held for trading		(2,947)	2,449	(2,947)	2,449
Net (increase) in available-for-sale non-current assets		(2,718)	0	(2,718)	0
Net (increase)/decrease in other assets		(17)	87	(132)	8,533
c) Increase in operating liabilities		**27,457**	**81,564**	**5,961**	**79,361**
Net increase in assets at central bank		156,578	49,013	156,578	49,013
Net increase in financial liabilities held for trading		0	8	0	6
Net increase/(decrease) in deposits and borrowings measured at amortised cost		(117,399)	112,712	(134,101)	115,887
Net (decrease) in issued debt securities measured at amortised cost		(11,742)	(71,406)	(11,742)	(71,406)
Net (decrease) in derivatives used for hedging		0	(7,369)	0	(7,369)
Net increase/(decrease) in other liabilities		20	(1,394)	(4,775)	(6,770)
d) Cash flows from operating activities (a+b+c)		**144,233**	**135,361**	**151,706**	**152,245**
e) (Paid)/refunded corporate income tax		**36**	**(3,283)**	**(1,625)**	**(7,051)**
f) Net cash flow from operating activities (d+e)		**144,269**	**132,078**	**150,081**	**145,194**
B. CASH FLOWS FROM INVESTING ACTIVITIES					
a) Inflows from investing activities		**1,632**	**2,576**	**1,252**	**3**
Proceeds from disposal of property, plant and equipment and investment property		0	2	900	3
Other inflows from investing activities	2.4.2	1,632	2,574	352	0
b) Outflows from investing activities		**(616)**	**(310)**	**(3,540)**	**(3,714)**
(Acquisitions of property, plant and equipment and investment property)		(248)	(206)	(2,884)	(3,228)
(Acquisitions of intangible assets)		(368)	(104)	(656)	(486)
c) Net cash flow from investing activities (a-b)		**1,016**	**2,266**	**(2,288)**	**(3,711)**
D. Effect of foreign exchange differences on cash and cash equivalents		4	0	4	0
E. Net increase in cash and cash equivalents (Af+Bc)		**145,285**	**134,344**	**147,793**	**141,483**
F. Opening balance of cash and cash equivalents	2.5.1	**172,352**	**38,008**	**194,171**	**52,688**
G. Closing balance of cash and cash equivalents (D+E+F)	2.5.1	**317,641**	**172,352**	**341,968**	**194,171**

Cash flows from interest and dividends

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Cash flows from interest and dividends				
- Interest received	159,509	147,326	177,840	170,384
- Interest paid	(94,750)	(96,712)	(102,951)	(107,688)
- Dividends received	1,632	2,574	352	0
Total	66,391	53,188	75,242	62,696

2. Notes to the financial statements

Points 1.1 to 1.5 of the accounts present the income statement for the 2012 financial year, the statement of comprehensive income for the 2012 financial year, the statement of financial position as at 31 December 2012, the statement of changes in equity for the 2012 financial year and the statement of cash flows for the 2012 financial year for SID Bank (separate statements) and for the SID Bank Group (consolidated statements). Figures for the position as at 31 December 2011 and for the 2011 financial year are disclosed in the aforementioned financial statements for the purposes of comparison. In accordance with IAS 8 the comparative figures have been adjusted for changes relating to changes made in the current year.

2.1 Basic information

The SID Bank Group (hereinafter also: the Group) comprises SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter: SID Bank or the Bank) as the controlling company, and subsidiaries, joint ventures and a joint foundation. A detailed presentation of the Group is given in Section 6 of the business report in the annual report.

The Group provides banking services under authorisations obtained from the Bank of Slovenia, and undertakes transactions under the authorisation of the Slovenian state, the insuring of receivables, factoring and recovery.

SID Bank's registered office is at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Slovenia.

The Bank's share capital amounts to EUR 300,000,090.70, and is divided into 3,121,741 ordinary registered no-par-value shares released in several issues. The Republic of Slovenia (the Slovenian state) is the Bank's sole shareholder.

2.2 Statement of compliance

The financial statements of SID Bank and the SID Bank Group have been compiled in accordance with the International Financial Reporting Standards and the corresponding interpretations as approved by the European Union (the IFRS), the Companies Act and Bank of Slovenia regulations being applied as appropriate.

2.3 Significant accounting policies

The significant accounting policies that provide the basis of measurement for the compilation of the financial statements of SID Bank and the SID Bank Group and other accounting policies that are of significance in the interpretation of the separate and consolidated financial statements are given below. Given their lack of material significance, the accounting policies relating to insurance contracts are not disclosed in detail.
The approved accounting policies were consistently applied in the two reporting periods.

2.3.1 Basis for compiling the financial statements

The financial statements of SID Bank and the SID Bank Group have been compiled on a historical cost basis, with the exception of financial assets held for trading, derivatives, available-for-sale financial assets and investment property, which are measured at fair value.

The accounting policies may only be changed if:
– the change is mandatory under a standard or interpretation, or
– the change results in the financial statements presenting information of greater reliability or relevance.

2.3.2 Use of estimates and judgements

The compilation of the financial statements in accordance with the IFRS at SID Bank and the SID Bank Group requires the use of estimates and judgements that affect the carrying amounts of reported assets and liabilities, the disclosure of contingent assets and liabilities as at the reporting date, and the amount of revenue and expenses in the reporting period. Financial instruments are assigned to a category upon initial recognition with regard to the policy of SID Bank and the SID Bank Group. Estimates are used for losses for loan impairments, provisions for off-balance-sheet risks, the amortisation/depreciation period for property, plant and equipment and intangible assets, potential tax items and provisions for employee benefits. Additional notes are given in point 2.3.11 of Section Impairments of financial assets, in point 2.3.13 Property, plant and equipment and intangible assets, in point 2.3.23 Taxes and in point 2.3.24 Employee benefits. Although the estimates used are based on the best knowledge of current developments and activities, the actual results may differ from the estimates. SID Bank and the SID Bank Group make revisions to the estimates and assumptions used, and recognise their effects during the period of the revision.

2.3.3 Consolidation

Undertakings included in consolidation

The following are included in the consolidated financial statements:
– full consolidation: the controlling company SID Bank, and the subsidiary SID - Prva kreditna zavarovalnica d.d., Ljubljana, and
– proportionate consolidation: the Prvi Faktor Group (joint venture).

All mutual receivables and liabilities between undertakings in the Group are excluded in the consolidation process, as are all revenues and expenses generated within the Group. There are no unrealised gains or losses from mutual transactions. In the case of the Prvi Faktor Group, mutual transactions are included in accounting categories in the amount of 50%. There are no minority interests.

Undertakings excluded from consolidation

Given their lack of material significance to a true and fair picture of the financial statements, SID Bank does not include the Pro Kolekt Group or the Centre for International Cooperation and Development (CMSR) in consolidation.

The balance sheet totals of the Pro Kolekt Group and the CMSR amount to less than 1% of SID Bank's balance sheet total. The consolidated revenues of the undertakings in the Pro Kolekt Group and the CMSR also amount to less than 1% of SID Bank's revenues. On the basis of the aforementioned indicator, the Pro Kolekt Group and the CMSR are not of material significance to the SID Bank Group, and are therefore excluded from consolidation. The Pro Kolekt Group and the CMSR are also excluded from consolidation according to the Regulation on the supervision of banks and savings banks on a consolidated basis.

2.3.4 Functional and presentation currency

Items in the separate and consolidated financial statements are disclosed in euros, which is the functional and presentation currency of SID Bank.

All amounts in the financial statements and the accompanying notes are expressed in thousands of euros, unless stated otherwise.

Where figures for the Bank and the Group are identical, they are only disclosed once.

2.3.5 Translation of transactions and items in foreign currency

All transactions in foreign currency are converted into the functional currency at the exchange rate on the transaction date. Foreign exchange differences are recognised in profit or loss as foreign exchange gains/losses.

Assets and liabilities denominated in foreign currencies are converted in the Group's financial statements using the reference European Central Bank exchange rate applicable on the reporting date. Translation effects are disclosed in the income statement as foreign exchange gains/losses.

Foreign exchange differences arising in the settlement of monetary items or in the translation of monetary items at exchange rates other than those at which they were translated upon initial recognition in the period or in previous financial statements are recognised in profit or loss in the period in which they arise. They are disclosed in the item of Net gains/losses from foreign exchange differences.

Foreign exchange differences on the principal and interest for debt instruments are recognised in profit or loss, while foreign exchange differences arising in valuation (the effect of a change in the market price in a foreign currency) to fair value are disclosed in the revaluation surplus in other comprehensive income.

Foreign exchange differences arising on non-monetary items such as equities classed as available-for-sale financial assets are recognised in the revaluation surplus together with the effect of valuation at fair value in other comprehensive income.

The translation of the financial statements of undertakings whose functional currency differs from the presentation currency is reflected in foreign exchange differences from consolidation, which are disclosed in a separate equity adjustment and only recognised in profit or loss when the investment is disposed of.

2.3.6 Cash and cash equivalents

Assets not held for trading and with an original maturity of no more than three months are disclosed as cash equivalents in the statement of cash flows. All cash, deposits, loans to banks and available-for-sale securities are included.

All cash equivalent items are short-term, highly liquid investments that are readily convertible to predetermined cash amounts.

2.3.7 Interest income and expenses

Interest income and expenses include income and expenses for interest on loans granted and received, interest on derivatives, interest on available-for-sale financial assets and other interest.

Interest income and expenses for interest on loans granted and received and for other interest are recognised in profit or loss in the relevant period using the effective interest rate method.

Accrued interest on impaired loans for clients rated A to C is impaired to the same level as the loan.

Accrued interest on impaired loans for clients rated D and E is excluded from revenue by the Bank, and is only recognised if and when payment occurs.

For available-for-sale financial assets, interest income is calculated by means of the return to maturity on the basis of the calculation of the amortised cost using the effective interest rate method.

2.3.8 Dividend income

Dividends received from subsidiaries and joint ventures are disclosed as dividend income. Dividend income is recognised in profit or loss when the right to receive dividends is acquired.

2.3.9 Net fee and commission income

Income from fees and commissions primarily comprises fees and commissions on loans and guarantees granted, while expenses from fees and commissions primarily comprise fees and commissions on borrowings. The method of recognition is stated in point 2.3.11 of Section Measurement, recognition and derecognition.

2.3.10 Other net operating gains/(losses)

Other net operating gains/losses disclosed in the income statement include revenues for non-banking services, revenues from insurance operations and expenses from insurance operations.

Revenues for non-banking services include revenues for credit assessment information, fees for services provided under authorisation, rents and other services.

2.3.11 Financial instruments

Classification

Financial assets

The Group classifies financial assets at initial recognition with regard to the purpose of acquisition, the time held in possession and the type of financial instrument into one of the following categories:

Loans and receivables are financial assets with fixed or determinable payments not traded on an active market.

Financial assets held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

Available-for-sale financial assets are assets not purchased for the purpose of trading. The item includes equities and debt securities. Debt securities are classified in this category for the purpose of being held indefinitely, having been purchased for the management of current liquidity.

Financial instruments at fair value through profit or loss, which are further divided into financial assets held for trading, derivatives held for hedging and other financial assets at fair value through profit or loss. The Group classifies derivatives not used to hedge against risk as financial assets held for trading. Derivatives primarily comprise interest rate swaps, and serve to hedge against the interest rate risk that the Bank faces in its daily operations on the financial markets.

Financial liabilities

The Group classifies financial liabilities at initial recognition with regard to the purpose of acquisition, the time held in possession and the type of financial instrument into one of the following categories:

Financial liabilities at fair value through profit or loss, which are further divided into:
- Financial liabilities held for trading, where the Group classifies derivatives not used to hedge against risk, and
- Derivatives held for trading, where derivatives that meet the criteria for hedge accounting are classed.

Net gains/losses on the basis of changes in the fair value of financial liabilities are disclosed through profit or loss.

All other liabilities are classified into the category of **liabilities at amortised cost**, which comprise:
- Financial liabilities to the central bank, and
- Financial liabilities at amortised cost, which comprises liabilities from deposits and loans from banks and non-banking clients, issued debt securities and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of the cash received, minus transaction costs.

Measurement, recognition and derecognition

Financial assets other than financial assets at fair value through profit or loss are initially measured at fair value plus transaction costs.

Financial assets at fair value through profit or loss are initially measured at fair value, while the transaction costs are recognised in profit or loss.

Purchases and sales of financial assets other than loans and receivables are recognised on the trade date. Loans and receivables are recognised on the settlement date.

After initial recognition loans and receivables are measured at amortised cost using the effective interest method. Loans and receivables are disclosed in the amount of the unamortised principal plus unamortised interest and fees minus impairments.

Financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value.

Financial liabilities measured at amortised cost are recognised in the amount of the cash received minus directly attributable transaction costs.

After initial recognition financial liabilities are measured at amortised cost, the difference between the amount initially recognised and the amount at maturity being recognised in profit or loss using the effective interest method.

Income from fees and commissions charged on loan approvals and expenses from fees and commissions on borrowings are allocated on a straight-line basis over the loan repayment term.

A financial asset is derecognised when the right to receive the corresponding cash flows expires, or when the financial asset has been transferred and the transfer meets the criteria for derecognition (the transfer of all risks and specific rewards deriving from the financial asset).

A financial liability is derecognised when the corresponding obligation has been discharged, has been cancelled or has expired. The difference between the carrying amount of a financial liability and the consideration paid is recognised in profit or loss.

Gains and losses

Gains and losses arising on changes in the fair value of financial instruments at fair value through profit or loss are recognised in profit or loss in the period in which they occur.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, with the exception of impairment losses. Upon derecognition, accrued gains and losses are disclosed in equity, and recognised in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest rate method is recognised directly in profit or loss.

Impairments of financial assets

Loans and receivables

The Group regularly examines, by no later than the reporting date, whether there is objective evidence of any impairment of loans, other financial assets, and factoring receivables.

Loans and receivables are impaired if loss events have occurred that reduce expected future cash flows, and the reduction can be reliably measured. Objective evidence of the impairment of financial assets includes significant information in connection with a client's financial difficulties, breaches of contract such as a failure to perform obligations or breaches in the payment of interest and principal, the likelihood of a client's bankruptcy or financial reorganisation, and an adverse economic situation in the local environment.

Significant adverse developments that occur in the technological, market, economic or legal environment in which the debtor operates and that indicate that the value of a given financial asset will not be recovered are also taken into account.

Impairments of loans and guarantees

Financial assets deriving from loans and guarantees are allocated to impairment on an individual or collective basis. On-balance-sheet and off-balance-sheet items that are subjected to impairment on an individual basis comprise:
- individually significant items where the total exposure to a single client exceeds EUR 200 thousand for classification purposes,
- financial assets that the Bank judges should be assessed on an individual basis.

If during the individual assessment of a financial asset there exists objective evidence of impairment, the recoverable amount of the financial asset must be estimated. Impairment is measured for each financial asset that is individually significant. Impairment of financial assets that are not individually significant is measured on a collective basis.

The estimated loss for collective impairment is based on the three-year average of estimated losses from financial assets in the group in question, which is adjusted to the current economic situation.

Total exposures not subject to individual impairment are assigned to groups on the basis of the type of financial asset and the credit rating of the debtor.

The calculation of the credit risk losses of an individually significant asset takes account of prime eligible collateral and other credit protection that fully satisfies the conditions specified in point 9 of the Regulation on the assessment of credit risk losses of banks and savings banks.

When financial assets are assessed individually but impairment is not necessary and consequently not recognised, the assets are fully re-included in collective assessment.

Impairments of factoring receivables

Impairments of financial assets deriving from receivables from factoring transactions (purchased receivables, receivables from reverse factoring; hereinafter: factoring receivables) are created when it is assessed that specific receivables cannot be redeemed in accordance with the contractual provisions and a loss is expected.

The amount of the loss is the difference between the carrying amount of the loan and its recoverable amount, which comprises expected future payments, including repayments from guarantees and collateral, discounted at the interest rate applicable when the loan was raised.

The primary basis for impairments of loans and factoring receivables is the creditworthiness and performance of the borrower, the value of the collateral received and third-party guarantees being taken into account.

The amount of the adjustment or impairment of a receivable is estimated on the basis of an assessment of the individual debtor.

Restructured loans

Loans that are assessed on an individual basis for the purpose of assessment of impairment losses and in connection with which a new agreement on payment terms has been reached owing to a deterioration in the debtor's solvency are no longer classed as past-due receivables, but are instead treated as new loans, and are subject to impairment in accordance with the regulations on the assessment of credit risk losses. All differences arising in the restructuring are recognised in profit or loss.

Available-for-sale financial assets

Equity instruments are impaired if there is objective evidence of impairment as a result of a loss event or events occurring after initial recognition. Objective evidence of impairment is assumed to have arisen when the fair value declines by more than 40% from the original historical cost, or when the fair value has been lower than the original cost for more than nine months.

When none of the impairment assessment criteria has been met, but in the opinion of the Bank's credit committee there is sufficient information providing solid, objective evidence of the impairment of equity and debt instruments, impairment is applied after individual assessment of the financial asset in question.

Individual assessment of the application of impairment on the basis of solid, objective evidence also applies to debt instruments.

Objective evidence of impairment includes non-payment of interest or principal, significant financial difficulties on the part of the issuer, the likelihood of the issuer's bankruptcy or financial reorganisation, the disappearance of an active market as a result of financial difficulties and other significant information indicating that there is a measurable reduction in estimated future cash flows, including the economic situation in the issuer's country or local environment.

Impairment losses that are recognised in profit or loss for equity instruments may not be reversed through profit or loss.

If the fair value of a debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed and the amount of the reversal is recognised in profit or loss.

2.3.12 Derivatives used for hedging

This item comprises derivatives that meet the conditions for hedge accounting.

Hedge accounting means the booking of a hedge relationship between the hedging instrument (usually a derivative) and the hedged item (an asset or liability, or a group of assets or group of liabilities with similar risk attributes) for the purpose of mutually neutralising the effects of measuring the two instruments in profit or loss, which would otherwise not be recognised in profit or loss simultaneously. In so doing the hedge relationship should be formally noted and appropriately documented.

At the inception of a hedge the Bank must compile a formal document describing the relationship between the hedged item and the hedging instrument, the risk management objective, the valuation methodology and the hedging strategy. It must also document the assessment of the effectiveness of hedging instruments when faced with exposure to changes in the fair value of the hedged item. These are the criteria that must be met to qualify as a hedge relationship. The Bank assesses the effectiveness of the hedge when the transaction is concluded and throughout the life of the hedge relationship, where the effectiveness should fall within the range of 80% to 125%. Hedge accounting discontinues if the hedging instrument expires or is sold, or when the hedge no longer satisfies the aforementioned criteria for qualifying as a hedge relationship.

Changes in the fair value of derivatives used as fair value hedges are recognised in profit or loss together with the change in the fair value of the hedged item that can be attributed to the hedge. When hedging is effective, changes in the fair value of hedging instruments and the related hedged items are disclosed in the income statement in the item of changes in fair value in hedge accounting.

SID Bank actively manages interest rate risk by means of hedging transactions. The purpose of hedging is to mitigate risks deriving from potential losses occurring as a result of changes in market interest rates.

2.3.13 Property, plant and equipment and intangible assets

Property, plant and equipment

Property, plant and equipment comprise real estate, equipment, furniture and small items.

Property, plant and equipment are valued at original cost upon initial recognition. The original cost comprises the purchase price, import duties and non-refundable purchase taxes, and the costs that can be directly attributed to making the asset fit for its intended use. Subsequently incurred costs in connection with an item of property, plant and equipment are disclosed as maintenance costs or an increase in the original cost of the asset.

After initial recognition a cost model is applied, which means that an item of property, plant and equipment is disclosed at its original cost minus the depreciation write-down and accumulated impairment loss.

Land and buildings are treated separately, even if acquired together.

Property, plant and equipment become subject to depreciation when the asset is available for use. Depreciation is calculated on a straight-line basis. The following depreciation rates are applied:

	SID Bank and SID Bank Group (%)
buildings and parts of buildings	2.0 - 5.0
computer equipment	25.0 - 50.0
cars	12.5 - 20.0
furniture	11.0 - 20.0
other equipment	20.0 - 25.0
small items	20.0 - 100.0

Property, plant and equipment are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in the income statement. At the end of each financial year, on the reporting date, it is assessed whether there are any indications of impairment. If such indications exist, the recoverable amount of the asset is estimated, as follows:
– the fair value less cost to sell, or
– the value in use, whichever is the larger.

The carrying amount of an individual item of property, plant and equipment is derecognised upon its disposal, if future economic benefits are no longer expected from its use or disposal.

Intangible assets with definite useful life

This item includes investments in software and other property rights. If the useful life is final, its useful life is estimated and it is subject to amortisation at a rate of 20% to 25% for software and 12% to 20% for other property rights. Amortisation is calculated on a straight-line basis.

Intangible assets with definite useful life are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in the income statement. At the end of each financial year, on the reporting date, it is assessed whether there are any indications of impairment of intangible assets. If such indications exist, the recoverable amount of the asset is estimated, as follows:
– the fair value less cost to sell, or
– the value in use, whichever is the larger.

After initial recognition, intangible assets with definite useful life are disclosed using the cost model, at the original cost less the accumulated amortisation and any accumulated impairment losses.

Amortisation ceases either on the day when the asset is classified as available-for-sale, or on the day when it is derecognised, whichever is the earlier.

Intangible assets with indefinite useful life

This item includes goodwill. Goodwill arises in the acquisition of investments in subsidiaries or joint ventures, when the original cost exceeds the fair value.

The Group examines annually whether there are any grounds for the impairment of goodwill. Should the recoverable amount be lower than the carrying amount, impairment is recognised.

2.3.14 Investment property

Investment property is real estate that the Group does not use directly in the pursuit of its activities, but instead holds for the purpose of renting in an operating lease.

Investment property is measured at fair value, which is determined by a certified appraiser. The fair value is based on current market prices.

Any gain or loss arising on remeasurement to fair value is recognised by the Group in profit or loss in the period in which it occurs.

2.3.15 Long-term interests in subsidiaries and joint ventures

Interests in subsidiaries and joint ventures are recognised in separate financial statements using the cost method, and dividends are recognised in profit or loss when the right to receive the dividend arises.

When there is evidence of the need for the impairment of an interest in a subsidiary or joint venture, the recoverable amount is assessed for each investment separately. In the case of interests in subsidiaries where there was no goodwill at acquisition, indications of impairment are assessed at the reporting date, and where such indications exist an impairment test is conducted. In the case of an interest in a joint venture, impairment testing is conducted on the basis of a test of impairment of goodwill for cash generating units that include goodwill.

In the consolidated financial statements a test of impairment of goodwill is conducted for cash generating units on each reporting date.

Impairment tests are made in accordance with the commercial expectations of the individual interest. The basis for the test is the valuation of the interest. The input data for valuation comprises commercial expectations supported by the individual undertaking's business plan and the impact that SID Bank has on the individual undertaking's performance. The valuation model is based on the measurement of discounted cash flows. The discount factor is calculated in accordance with the risks to which the individual interest is exposed.

Impairment tests are made each year for interests in joint ventures. For subsidiaries where SID Bank has a controlling influence, there have been no indications of impairment, for which reason impairment tests have not yet been made on these undertakings.

2.3.16 Other assets

Receivables are recognised as an asset in the amounts arising from the relevant documents under the assumption that they will be repaid. The fair value, i.e. recoverable amount, is examined for various types of receivable in different ways on the reporting date. If there is objective evidence of impairment of a receivable, the impairment loss is recognised under the caption revaluation operating expenses in connection with receivables; the bank records the impairment in a separate allowance account.

Receivables from insurance contracts, prepayments, tax assets and advances are included in other receivables.

2.3.17 Non-current assets held for sale

Non-current assets held for sale are assets whose carrying amount will be settled primarily through sale and not through further use. This condition is satisfied only when a sale is highly likely and the asset is available for immediate sale in its current condition. Non-current assets are allocated to the aforementioned category when the owner has expressed in writing the intention to sell the asset, and a timetable of the sale process is enclosed. The sale must be made within one year of the asset being classified in this category.

Non-current assets held for sale are measured at the carrying amount or fair value less cost to sell, whichever is the lower. The effects of the sale are disclosed in the income statement as net gains/losses on non-current assets held for sale and the associated liabilities.

2.3.18 Provisions for liabilities and costs

Provisions are created for contingent losses in connection with risks deriving from off-balance-sheet liabilities (approved but unused loans and credit lines, guarantees), for retirement benefits and for jubilee benefits, and for liabilities from insurance contracts.

Provisions for liabilities and costs are recognised when there is a present commitment (legal or indirect) as a result of a past event, and it is likely that in the settlement of the commitment there will be an outflow of resources yielding economic benefits, and a reliable estimate can be made of the commitment.

SID Bank recognises provisions for off-balance-sheet liabilities on the basis of the risk level of the client and the transaction that are based on assessments similar to the assessments for loan impairments. They are calculated under the procedures stated in point 2.3.11 under the title Impairments of financial assets.

2.3.19 Other liabilities

Other liabilities include liabilities from insurance contracts, accruals and deferred income, tax liabilities and advances received.

2.3.20 Shareholder equity

Shareholder equity consists of share capital, the share premium account, profit reserves, the revaluation surplus in connection with financial assets, the equity adjustment (shares held in treasury) and net profit for the financial year.

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

The share premium account may be used in accordance with law to cover losses and to increase capital.

Profit reserves are recognised when created by the body that compiles the annual report or via a resolution by the competent body, and are used in accordance with the articles of association and with law. Reserves under the articles of association may be used to cover net loss for the financial year, to cover losses brought forward, to increase the share capital, to create reserves for treasury shares and to cover major loss events occurring in operations or extraordinary developments. Other profit reserves are earmarked for strengthening capital adequacy.

The revaluation surplus includes revaluations in connection with available-for-sale financial assets.

Own shares held in treasury are disclosed as a deduction to equity in the amount of the consideration therefor.

The equalisation reserve, which derives from insurance contracts, is disclosed in a separate item in the profit reserves, and serves as a reserve for the equalisation of credit risks. Changes therein are similarly disclosed.

2.3.21 Contingent liabilities and commitments

Financial and service guarantees and unused approved loans and credit lines are disclosed under commitments, while contingent liabilities are also disclosed in the consolidated statement of financial position, and comprise unclaimed recourse receivables.

Assumed financial commitments for sureties comprise irrevocable commitments for when a client fails to meet its liabilities to third parties.

The risks related to contingent liabilities and assumed financial commitments are assessed on the basis of current accounting policy and internal regulations in connection with risk management. Any increase in liabilities is reflected in the item of provisions.

2.3.22 Operations on behalf of and for the account of the Republic of Slovenia

The insurance operations and the Interest Rate Equalisation Programme that SID Bank provides on behalf of the Republic of Slovenia are disclosed in separate items, as determined by the Bank of Slovenia for the administration of transactions under authorisation. The assets and liabilities relating to these transactions are not included in the Bank's statement of financial position.

2.3.23 Taxes

Corporate income tax is accounted at the undertakings in the SID Bank Group in accordance with local legislation.

Deferred taxes are accounted using the statement of financial position liability method for all temporary differences arising between the tax values of assets and liabilities and their carrying amounts. Deferred taxes are calculated using the tax rates that are applicable as at the reporting date, or that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences if it is likely that an available taxable profit will arise against which it will be possible to apply deductible temporary differences.

The most significant temporary differences arise in the valuation of financial instruments and provisions.

Deferred taxes in connection with the measurement of available-for-sale financial instruments at fair value are disclosed directly in other comprehensive income.

A tax on the balance sheet total was introduced for banks in 2011. SID Bank is not subject to this tax, as its stock of loans to non-financial corporations did not exceed 20% of its balance sheet total when the law was introduced.

2.3.24 Employee benefits

Employee benefits include retirement benefits and jubilee benefits.

Legislation stipulates that employees generally retire after 40 years of service, and are then entitled to a one-off payment of retirement benefits provided that the stipulated conditions are met. Employees are also entitled to jubilee benefits in accordance with the collective agreements of individual undertakings in the Group. The aforementioned commitments and all corresponding gains/losses are included in the income statement.

The requisite provisions on this basis are calculated in the amount of the present value of future expenses, specific assumptions being taken into account (the major assumptions are a discount factor of 40% of the weighted average interest rate on government securities published by the Ministry of Finance for the purposes of pension insurance, the headcount on the final day of the year, and average wage of employees in the final quarter). Provisions of this type are calculated every year; in the Prvi Faktor Group alone they are calculated for a three-year period.

2.3.25 Calculation of net earnings per share

Net earnings per share are calculated as the ratio of the net profit disclosed by the Bank in the indicator to the number of shares making up its share capital. Own shares held in treasury are not included in the calculation.

2.3.26 Segment reporting

The Bank operates as a single operating segment, as the operations at the Bank do not vary significantly in terms of risk or return.

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities at the SID Bank Group. Under IFRS 8, the SID Bank Group's operating segments are banking, credit and investment insurance and factoring.

2.3.27 New standards and interpretations in the reporting period and issued/ approved standards and interpretations not yet effective and applied

In the reporting period and by the date of the approval of the annual report, the following standards had been issued but were not yet effective and had not yet been adopted (early) by the Group:

- Amendment to IFRS 7 Financial Instruments: Disclosures; new disclosures in offsetting (effective for accounting periods beginning on or after 1 January 2013); the Group does not expect the changes to have any impact on its financial statements, as it does not use offsetting for financial instruments.

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (effective for annual accounting periods beginning on 1 January 2014); the impact of the initial application of the changes depends on the specific facts and circumstances inside the Group as at the day of application. Before the initial application of the changes the Group cannot assess their impact on the financial statements.

- IFRS 11 Joint Arrangements superseding IAS 31 Interests in Joint Ventures (effective for annual accounting periods beginning on 1 January 2014); the Group envisages that the new standard will have no impact on the financial statements, as under the new standard the treatment of joint arrangements will not result in any change in the accounting of existing joint arrangements.

- IFRS 12 Disclosure of Interests in Other Entities (effective for annual accounting periods beginning on 1 January 2014); the Group envisages that the new standard will have no significant impact on the financial statements.

- IFRS 13 Fair Value Measurement; the definition of fair value and the framework for the measurement of fair value in a single IFRS, with expanded disclosures, does not entail new requirements for the measurement of assets and liabilities at fair value (effective for periods beginning on or after 1 January 2013); the Group does not expect the initial application of this standard to have a significant impact on its financial statements, as it assesses that the methods and assumptions of measurement used to date are in line with the new standard.

- Amendments to IAS 1 Presentation of Financial Statements: Presentation of items of other comprehensive income; separate presentation of items that are or are not potentially reclassifiable to profit or loss (effective for periods beginning on or after 1 July 2012); the Group assesses that the initial application of this standard will have no significant impact on its financial statements, as all items of such a nature that they are potentially reclassifiable to profit or loss are disclosed in comprehensive income.

- Amendments to IAS 12 Income Taxes: Recovery of underlying assets (effective for periods beginning on or after 1 January 2013); the Group assesses that the changes will have no impact on the consolidated financial statements.

- IAS 19 Employee Benefits; the revision requires the immediate mandatory recognition of actuarial gains and losses in other comprehensive income (effective as of 1 January 2013); the Group assesses that the changes in the standard will have no significant impact on the financial statements, as they will not be reflected in changes in accounting policies.

- IAS 27 Separate Financial Statements; the existing requirements with regard to disclosures in separate financial statements have been transferred from IAS 27 (2008) to IAS 27 (2011), albeit with minor directions for application (effective for annual accounting periods beginning on 1 January 2014); the Bank envisages that the initial application of this standard will have no significant impact on the financial statements, as the accounting policies will remain unchanged.

– IAS 28 (2011) Investments in Associates and Joint Ventures (effective for annual accounting periods beginning on 1 January 2014, with retrospective application); it is envisaged that the amendment to the standard will have no impact on the financial statements.

– Amendment to IAS 32 Offsetting Financial Assets and Liabilities (effective for accounting periods beginning on or after 1 January 2014); the Group does not expect the changes to have any impact on its financial statements, as it does not use offsetting for financial instruments.

– IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual accounting periods beginning on 1 January 2013); the Group envisages that the interpretation will have no impact on the financial statements, as it does not carry out any stripping activities.

The Group decided not to apply any standards before the date of mandatory application.

2.4 Notes to the income statement

2.4.1 Net interest income

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Interest income				
Loans and deposits	120,552	127,281	130,150	139,452
Derivatives used for hedging	28,462	26,369	28,462	26,369
Available-for-sale financial assets	7,497	3,648	8,075	4,272
Financial assets held for trading, other financial assets	51	73	50	74
Total	156,562	157,372	166,737	170,167
Interest expenses				
Issued securities	(45,095)	(46,177)	(45,095)	(46,177)
Loans and deposits	(35,537)	(40,786)	(41,779)	(47,719)
Derivatives used for hedging	(12,696)	(15,974)	(12,696)	(15,974)
Financial liabilities held for trading, other financial liabilities	(92)	(63)	(92)	(63)
Total	(93,420)	(103,000)	(99,663)	(109,934)
Net interest income	63,142	54,372	67,074	60,234

The effect of the accrued and excluded interest income relating to clients rated D and E as at 31 December 2012 amounts to EUR 2.4 million (the effect would have been EUR 239 thousand as at 31 December 2011). An additional note is given in point 2.3.7.

2.4.2 Dividend income

Dividends were paid to SID Bank by a subsidiary. At the SID Bank Group the income relates to dividends received from investments in shares and participating interests.

2.4.3 Net fee and commission income

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Income from fees and commissions				
Fees and commissions from loan transactions	1,596	1,757	1,526	1,706
Fees and commissions from factoring transactions	0	0	4,204	4,137
Fees and commissions from guarantees granted	223	197	252	205
Total	1,819	1,954	5,981	6,048
Expenses from fees and commissions				
Fees and commissions from loan transactions	(588)	(766)	(895)	(1,122)
Other fees and commissions (stock exchange transactions, other)	(118)	(128)	(439)	(640)
Total	(706)	(894)	(1,334)	(1,762)
Net fee and commission income	1,113	1,060	4,648	4,286

2.4.4 Gains/losses realised on financial assets and liabilities not measured at fair value through profit or loss

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Realised gains				
Financial liabilities measured at amortised cost	1,379	0	1,379	0
Available-for-sale financial assets	329	66	438	66
Total	1,708	66	1,817	66
Realised losses				
Financial liabilities measured at amortised cost	(15)	(1,519)	(15)	(1,519)
Available-for-sale financial assets	(4)	(144)	(4)	(144)
Losses on loans	0	(2)	0	(2)
Total	(19)	(1,665)	(19)	(1,665)
Net gains/losses	1,689	(1,599)	1,798	(1,599)

2.4.5 Gains/losses on financial assets and liabilities measured at fair value through profit or loss

	SID Bank and SID Bank Group	
	2012	2011
Gains on financial liabilities measured at fair value through profit or loss	21,072	31

SID Bank received EUR 50 million of funding from the Ministry of Economic Development and Technology at the end of 2011, which together with funding from the Bank allowed for the creation of a Loan Fund to improve corporate access to financing to accelerate the transfer of knowledge and results of research and development activity into commercial use, thereby meeting the national development strategy objectives of increased competitiveness in the economy, higher added value, faster incubation and growth of innovative firms and an increase in corporate capacity to innovate.

SID Bank creates impairments and provisioning for loans approved on this basis. The resulting expenses amounted to EUR 21.2 million in 2012. Impairment and provisioning expenses were also the main factor in the loss of EUR 21.1 million recorded by the Loan Fund in 2012. Under the contract, a loss is covered first by funding from the state budget via a reduction in SID Bank's liabilities to the Ministry of Economic Development and Technology, which resulted in SID Bank realising revaluation income of EUR 21.1 million in the income statement.

2.4.6 Changes in fair value in hedge accounting

	SID Bank and SID Bank Group	
	2012	2011
Net gains on derivatives used for hedging	16,209	39,363
Net losses on hedged items (bonds, loans)	(13,561)	(40,343)
Total	2,648	(980)

The Bank used hedge accounting to hedge the fair value of issued bonds and borrowings in the total amount of EUR 1,083 million. The explanation is given in point 2.5.4.

The realised gains on the valuation of derivatives and hedged items amounted to EUR 2,648 thousand in 2012, and a net positive effect of EUR 18,414 thousand was generated when net interest income is taken into account. Additional notes are given in point 2.4.1.

2.4.7 Net foreign exchange gains/losses

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Foreign exchange gains	5,194	6,671	13,987	13,739
Foreign exchange losses	(5,200)	(6,665)	(13,151)	(12,526)
Net gains/losses	(5)	6	836	1,213

2.4.8 Other net operating gains/losses

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Gains				
Income from activities under Republic of Slovenia authorisation	2,267	2,684	2,267	2,684
Insurance premium income	0	0	20,220	20,926
Income from reinsurance commissions	0	0	2,209	2,631
Reinsurance share in compensation, recourse and bonuses	0	0	4,823	7,000
Recourse income	0	0	3,258	8,860
Other operating income	140	249	1,079	1,204
Total	2,406	2,933	33,855	43,305
Losses				
Expenses for reinsurance premiums	0	0	(12,526)	(12,631)
Expenses for gross claims	0	0	(12,613)	(18,898)
Reinsurance share in claims, recourse and bonuses	0	0	0	(268)
Other operating expenses	(185)	(167)	(2,026)	(1,948)
Total	(185)	(167)	(27,164)	(33,746)
Net operating gains	2,221	2,766	6,692	9,560

2.4.9 Administrative costs

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Labour costs	5,485	4,909	10,076	9,335
- costs of gross wages	4,083	3,548	7,413	6,688
- pension insurance costs	362	317	544	489
- social security costs	296	264	775	742
- payroll taxes	0	0	9	8
- other labour costs	744	780	1,335	408
General and administrative costs	2,100	2,108	4,040	3,923
- material costs	176	162	334	326
- costs of services	1,924	1,946	3,705	3,597
Total	7,585	7,017	14,116	13,258

2.4.10 Amortisation and depreciation

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Depreciation of property, plant and equipment	476	454	822	701
Amortisation of intangible assets	99	134	187	229
Total	575	588	1,009	930

2.4.11 Provisions

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Provisions for off-balance-sheet liabilities	(10,078)	(1,832)	(10,078)	(1,833)
Provisions for liabilities from insurance and reinsurance contracts	0	0	873	2,114
Provisions for pensions and jubilee benefits	(17)	(30)	484	185
Total	(10,095)	(1,862)	(8,721)	466

2.4.12 Impairments

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Impairments of loans and receivables measured at amortised cost	(69,448)	(41,008)	(69,932)	(44,603)
Impairments of available-for-sale financial assets	73	(261)	(1,958)	(180)
Impairments of other assets	(8)	0	(266)	(30)
Total	(69,383)	(41,269)	(72,156)	(44,813)

2.4.13 Corporate income tax on ordinary operations

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Current income tax	(588)	(1,089)	(2,015)	(3,223)
Deferred taxes	(233)	55	(220)	115
Total	(821)	(1,034)	(2,235)	(3,108)

The tax rate in Slovenia stood at 18% in 2012 (down from 20% in 2011). The tax rate will be further reduced in the coming years, by 1 percentage points a year until it reaches 15% in 2015. The tax rate in Croatia stood at 20% in 2012 and 2011, and at 10% in Serbia and in Bosnia and Herzegovina.

An explanation of the tax rates applied in the calculation of deferred taxes is given in point 2.3.23.

Current income tax differs from tax calculated using the prescribed tax rate, and is disclosed in the table below.

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Pre-tax profit	5,862	7,488	9,058	14,171
Corporate income tax (at rates applicable in relevant countries)	(1,055)	(1,498)	(1,842)	(3,282)
Income deducted from taxable base	352	515	884	1,069
Income added to taxable base	(4)	(5)	18	107
Non-tax-deductible expenses	(116)	(120)	(3,227)	(4,306)
Tax-deductible expenses	175	0	2,012	3,134
Increase in taxable base	(15)	(26)	(15)	(26)
Tax allowances	75	45	157	82
Tax	(588)	(1,089)	(2,015)	(3,223)
Effective tax rate, %	10	15	22	23

2.4.14 Net earnings per share

	SID Bank	
	2012	2011
Number of ordinary registered no-par-value shares	3,121,741	3,121,741
Own shares held in treasury	18,445	18,445
Net profit in period, EUR thousand	5,041	6,454
Net earnings per share, EUR	1.62	2.08

2.5 Notes to the statement of financial position

2.5.1 Cash and cash equivalents

Cash-in-hand and balances in accounts at central bank

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Settlement account	408	10	408	10
Overnight placements with central bank	0	41,686	0	41,686
Cash-in-hand	0	0	1	1
Total	408	41,696	409	41,697

Cash equivalents

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Bank deposits	314,159	130,630	331,021	149,657
Securities	3,014	0	3,014	0
Cash-in-hand and balance in settlement account at central bank	408	41,696	409	41,697
Cash in business accounts at banks	60	26	7,524	2,817
Total	317,641	172,352	341,968	194,171

2.5.2 Available-for-sale financial assets

Itemisation by type of available-for-sale financial asset

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Bonds	227,661	166,396	243,074	186,836
Treasury bills	73,409	37,652	74,893	39,066
Deposit certificates	8,550	8,058	8,550	8,058
Shares and participating interests at fair value	135	134	7,337	9,686
Total	309,755	212,240	333,854	243,646
Quoted on stock exchange	298,453	203,999	322,551	235,405
Not quoted on stock exchange	11,302	8,241	11,303	8,241
Total	309,755	212,240	333,854	243,646

Change in available-for-sale financial assets

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Balance as at 1 Jan	212,240	110,956	243,647	132,638
Recognition of new financial assets	220,177	135,102	222,586	149,778
Interest accruing	7,497	3,649	8,074	4,274
Interest paid	(7,063)	(3,874)	(7,821)	(4,646)
Net revaluation through equity	3,895	(2,829)	4,083	(4,818)
Net foreign exchange differences	(67)	217	(67)	308
Derecognition of financial assets	(126,996)	(30,720)	(134,572)	(33,707)
Impairments through profit or loss	72	(261)	(2,077)	(180)
Balance as at 31 Dec	309,755	212,240	333,854	243,646

Recognition entails the purchase of financial assets, while derecognition is effected upon maturity or sale.

2.5.3 Loans

Loans to banks

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Loans	2,730,309	2,855,540	2,730,308	2,855,539
Deposits	337,982	154,079	364,316	175,908
Gross exposure	3,068,291	3,009,619	3,094,624	3,031,447
Impairments	(37,135)	(12,465)	(37,173)	(12,475)
Net exposure	3,031,156	2,997,154	3,057,451	3,018,972

Change in adjustments to loans to banks

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Balance as at 1 Jan	12,465	3,619	12,475	3,619
Impairments created	43,487	11,609	43,515	11,620
Reversal of impairments	(18,816)	(2,764)	(18,816)	(2,764)
Balance as at 31 Dec	37,135	12,465	37,173	12,475

Loans to non-banking clients

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Loans	782,509	793,974	756,983	776,910
Receivables from guarantees granted	10,075	10,706	10,075	10,706
Receivables from factoring transactions	0	0	132,078	142,757
Gross exposure	792,584	804,680	899,135	930,374
Impairments	(143,290)	(103,270)	(160,304)	(119,653)
Net exposure	649,294	701,410	738,831	810,720

Change in adjustments to loans to non-banking clients

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Balance as at 1 Jan	103,270	71,108	119,653	84,353
Impairments created	62,762	52,686	63,696	58,425
Reversal of impairments	(22,741)	(20,524)	(23,044)	(23,125)
Balance as at 31 Dec	143,290	103,270	160,305	119,653

Other financial assets

As at 31 December 2012 the gross exposure for other financial assets amounted to EUR 580 thousand at SID Bank (31 December 2011: EUR 97 thousand) and EUR 1,948 thousand at the SID Bank Group (31 December 2011: EUR 561 thousand). As at 31 December 2012 impairments for other financial assets amounted to EUR 32 thousand at SID Bank (31 December 2011: EUR 24 thousand) and EUR 43 thousand at the SID Bank Group (31 December 2011: EUR 381 thousand).

2.5.4 Derivatives used for hedging

Fair value of interest rate swaps

	SID Bank and SID Bank Group	
	31 Dec 2012	31 Dec 2011
Fair value	60,405	44,196
Net interest receivables	17,598	14,651
Total	78,003	58,847

An explanation of the valuation effects is given in point 2.4.6.

2.5.5 Property, plant and equipment and intangible assets

Change in property, plant and equipment and intangible assets at SID Bank

2012	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan 2012	6,629	723	823	8,175	1,139
Increase/decrease	92	77	0	169	370
Balance as at 31 Dec 2012	6,721	800	823	8,344	1,509
Value adjustment for amortisation/depreciation					
Balance as at 1 Jan 2012	(3,116)	(642)	(524)	(4,282)	(917)
Amortisation and depreciation	(316)	(95)	(65)	(476)	(101)
Increase/decrease	0	72	7	79	0
Balance as at 31 Dec 2012	(3,432)	(666)	(582)	(4,679)	(1,018)
Carrying amount as at 31 Dec 2012	**3,289**	**134**	**241**	**3,664**	**491**

2011	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan 2011	6,589	762	730	8,081	1,036
Increase/decrease	40	(39)	93	94	103
Balance as at 31 Dec 2011	6,629	723	823	8,175	1,139
Value adjustment for amortisation/depreciation					
Balance as at 1 Jan 2011	(2,800)	(671)	(475)	(3,946)	(784)
Amortisation and depreciation	(316)	(66)	(72)	(454)	(133)
Increase/decrease	0	95	23	118	0
Balance as at 31 Dec 2011	(3,116)	(642)	(524)	(4,282)	(917)
Carrying amount as at 31 Dec 2011	**3,513**	**81**	**299**	**3,893**	**222**

Major acquisitions in 2012 comprised investments in the construction of a data store and the paperless office project, and computer equipment.

Change in property, plant and equipment and intangible assets at the SID Bank Group

2012	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Goodwill	Intangible assets	Total intangible assets
Original cost							
Balance as at 1 Jan 2012	8,862	1,453	1,714	12,029	488	1,987	2,475
Increase/decrease	955	151	63	1,169	0	651	651
Balance as at 31 Dec 2012	9,817	1,605	1,776	13,198	488	2,638	3,126
Value adjustment for amortisation/depreciation							
Balance as at 1 Jan 2012	(3,171)	(999)	(997)	(5,167)	0	(1,334)	(1,334)
Amortisation and depreciation	(419)	(238)	(165)	(822)	0	(186)	(186)
Increase/decrease	0	95	92	187	0	4	4
Balance as at 31 Dec 2012	(3,590)	(1,142)	(1,071)	(5,803)	0	(1,516)	(1,516)
Carrying amount as at 31 Dec 2012	**6,227**	**463**	**706**	**7,396**	**488**	**1,122**	**1,610**

2011	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Goodwill	Intangible assets	Total intangible assets
Original cost							
Balance as at 1 Jan 2011	6,589	1,108	1,373	9,070	488	1,494	1,982
Increase/decrease	2,273	345	341	2,959	0	493	493
Balance as at 31 Dec 2011	8,862	1,453	1,714	12,029	488	1,987	2,475
Value adjustment for amortisation/depreciation							
Balance as at 1 Jan 2011	(2,800)	(939)	(898)	(4,637)	0	(1,100)	(1,100)
Amortisation and depreciation	(371)	(169)	(163)	(703)	0	(226)	(226)
Increase/decrease	0	109	64	173	0	(8)	(8)
Balance as at 31 Dec 2011	(3,171)	(999)	(997)	(5,167)	0	(1,334)	(1,334)
Carrying amount as at 31 Dec 2011	**5,691**	**454**	**717**	**6,862**	**488**	**653**	**1,141**

An impairment test was conducted as at 31 December 2012.The overall carrying amount of the investment, which consists of the participating interest and goodwill, was compared with the recoverable amount (value in use). The value in use comprises the present value of future cash flows calculated using a discount rate that reflects the investment's required rate of return. The calculated discount rate for 2012 is 15%. The discount factor is calculated using a capital asset pricing model (CAPM). Country risk and risk for small size were additionally taken into account. Future cash flows comprise expected profits and dividends. Valuation is made on the basis of a pessimistic scenario for the performance of the undertaking in which SID Bank holds the investment, under the assumption of a going-concern basis. A financial plan has been drawn up for the period to the end of 2017. It was assumed in the valuation that profits after 2017 are the same as in 2017.

On the basis of the impairment test it was determined that no impairment of goodwill was necessary.

2.5.6 Long-term interests in subsidiaries and joint ventures

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Investment in SID - PKZ Ljubljana	8,413	8,413	0	0
Investment in Pro Kolekt Ljubljana	419	419	419	419
Investment in Prvi faktor, Ljubljana	3,087	3,087	0	0
Total	11,919	11,919	419	419

2012	SID Bank's holding in equity, %	Voting rights, %	Nominal amount of participating interests	Equity	Net profit
SID – PKZ	100	100	8,413	24,058	2,689
Prvi Faktor Group	50	50	1,584	8,722	1,090
Pro Kolekt Group	100	100	419	272	(22)

2011	SID Bank's holding in equity, %	Voting rights, %	Nominal amount of participating interests	Equity	Net profit
SID – PKZ	100	100	8,413	22,857	5,607
Prvi Faktor Group	50	50	1,584	6,443	1,859
Pro Kolekt Group	100	100	419	343	10

2.5.7 Corporate income tax assets and liabilities

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Current tax assets	439	473	1,456	1,195
Deferred tax assets	0	1,043	1,523	2,631
Total tax assets	439	1,515	2,979	3,826
Current tax liabilities	0	130	201	349
Deferred tax liabilities	28	118	28	118
Total tax liabilities	28	248	229	467

Deferred taxes

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Deferred tax assets				
- revaluation expenses from impairment of available-for-sale financial assets	173	348	329	366
- provisions for pensions and jubilee benefits	29	33	47	63
- valuation of available-for-sale financial assets	0	662	18	759
- value adjustments to receivables	0	0	1,302	1,408
- accruals and deferrals	0	0	28	36
Total	202	1,043	1,725	2,632
Deferred tax liabilities				
- valuation of available-for-sale financial assets	175	118	175	118
- reversal of impairments of available-for-sale financial assets	55	0	55	0
Total	230	118	230	118
Included in profit or loss	(233)	55	(220)	115
Included in equity	(719)	566	(763)	674

2.5.8 Other assets

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Other assets	266	243	677	353
Reinsurers' assets	0	0	16,987	17,738
Receivables from insurance operations	0	0	17,539	17,420
Gross exposure	266	243	35,203	35,511
Impairments of insurance operations	0	0	(2,813)	(2,992)
Net exposure	266	243	32,391	32,519

2.5.9 Non-current assets held for sale

Through the conversion of bank debt, the Bank acquired an interest in a company that it intends to sell at the earliest juncture. The book value of the interest rates stood at EUR 2,718 thousand as at 31 December 2012.

2.5.10 Financial liabilities to central bank

	SID Bank and SID Bank Group	
	31 Dec 2012	31 Dec 2011
Debts from other long-term loans from primary issue	206,592	50,014
Total	206,592	50,014

2.5.11 Financial liabilities measured at amortised cost

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Borrowings from banks	1,968,920	2,086,028	2,074,533	2,210,499
Loans	1,924,619	1,966,530	2,030,232	2,091,001
Deposits	44,301	119,498	44,301	119,498
Borrowings from non-banking clients	150,068	150,179	150,068	150,179
Loans	150,063	150,174	150,063	150,174
Deposits	5	5	5	5
Debt securities	1,406,725	1,404,906	1,406,725	1,404,906
Other financial liabilities	1,171	1,033	2,904	2,792
Total	3,526,884	3,642,146	3,634,230	3,768,376

SID Bank issued a eurobond in September 2012 with the ticker symbol SEDABI 3.42 09/27/13 and a nominal value of EUR 150 million. The issue was increased by a further EUR 60 million in October.

At the same time the Bank prepaid its bonds with the ticker symbol SEDABI 2.66 10/12 in the nominal amount of EUR 37.6 million. In so doing it realised a minimal loss of EUR 15 thousand (see point 2.3.4), but the overall economic effect was positive, as the Bank paid EUR 57 thousand less interest. The remainder of the SEDABI 2.66 10/12 bonds were repaid in October in the nominal amount of EUR 112.4 million. Given the favourable market conditions, and with the aim of reducing refinancing risk in 2015, the Bank prepaid 62,000 lots of its SEDABI3 04/21/15 bonds (ISIN XS0504013912) in November 2012, and an additional 13,000 lots in December 2012, in the total amount of EUR 75 million. The prepayment realised a gain of EUR 1,379 thousand (see point 2.4.4).

2.5.12 Provisions

Change in provisions at SID Bank

	Provisions for off-balance-sheet liabilities	Provisions for pensions and jubilee benefits	Total
Balance as at 1 Jan 2012	4,408	213	4,621
Additions	18,352	34	18,386
Reversals	(8,274)	(20)	(8,294)
Balance as at 31 Dec 2012	14,487	226	14,713
Balance as at 1 Jan 2011	2,577	184	2,761
Additions	4,299	41	4,340
Reversals	(2,468)	(12)	(2,480)
Balance as at 31 Dec 2011	4,408	213	4,621

Change in provisions at SID Bank Group

	Provisions for off-balance-sheet liabilities	Provisions for pensions and jubilee benefits	Change in liabilities from insurance contracts	Change in deferred income from reinsurance commissions	Total
Balance as at 1 Jan 2012	4,408	387	30,485	1,349	36,630
Additions	18,352	42	20,965	422	39,781
Reversals	(8,274)	(31)	(22,589)	(927)	(31,821)
Foreign exchange differences	0	(2)	0	0	(2)
Balance as at 31 Dec 2012	14,486	398	28,861	844	44,588
Balance as at 1 Jan 2011	2,577	333	43,933	1,583	48,426
Additions	4,299	60	0	413	4,772
Reversals	(2,468)	(13)	(13,448)	(646)	(16,575)
Foreign exchange differences	0	7	0	0	7
Balance as at 31 Dec 2011	4,408	387	30,485	1,350	36,630

2.5.13 Other liabilities

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Accruals and deferred income	125	95	9,755	10,861
VAT liabilities	52	49	165	181
Other liabilities	0	0	36	92
Total	177	144	9,956	11,133

2.5.14 Shareholder equity

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Share capital	300,000	300,000	300,000	300,000
Profit reserves	37,012	31,299	57,364	50,132
- statutory reserves	*8,941*	*8,689*	*9,826*	*9,574*
- reserves for treasury shares	*1,324*	*1,324*	*1,324*	*1,324*
- reserves under articles of association	*17,080*	*14,685*	*21,286*	*18,892*
- other profit reserves	*9,667*	*6,601*	*22,235*	*18,662*
- credit risk equalisation reserve	*0*	*0*	*2,692*	*1,680*
Share premium account	1,139	1,139	1,139	1,139
Revaluation surplus in connection with available-for-sale financial assets	1,003	(2,173)	898	(3,194)
Repurchased treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Net profit for the financial year (including retained earnings)	2,395	3,066	5,099	5,686
Total	340,224	332,007	363,175	352,439

2.5.15 Distributable profit

	SID Bank	
	2012	2011
Net profit for the financial year	5,041	6,454
Portion of net profit allocated to statutory reserves	(252)	(322)
Portion of net profit allocated to reserves under articles of association	(2,394)	(3,066)
Distributable profit	2,395	3,066

SID Bank's distributable profit may not be used for distribution to shareholders. In accordance with ZSIRB, the distributable profit is allocated to other profit reserves under a general meeting resolution.

2.6 Other notes to the financial statements

2.6.1 Contingent and potential liabilities

Itemisation of contractual liabilities for off-balance-sheet financial instruments deriving from assumed commitments

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Financial guarantees	26,953	27,155	27,468	29,110
Service guarantees	1,327	3,517	1,327	3,517
Total	28,280	30,672	28,795	32,627
Liabilities from approved unused loans	72,553	18,852	72,553	18,852
Total assumed commitments	100,833	49,524	101,348	51,479
Provisions for off-balance-sheet liabilities	(14,487)	(4,408)	(14,487)	(4,408)

SID Bank and the SID Bank Group disclose the value of unused loans approved for domestic banks and corporates as at 31 December 2012 in the item of assumed commitments. The amount of approved corporate loans that had not yet been disbursed as at 31 December 2012 totalled EUR 71,008 thousand, while the remainder comprised loans approved to banks.

The amount of approved corporate loans that had not yet been disbursed as at 31 December 2011 totalled EUR 15,732 thousand, undisbursed bank loans accounting for the difference of EUR 3,120 thousand.

Contractual value of derivatives

	SID Bank and SID Bank Group	
	31 Dec 2012	31 Dec 2011
Interest rate swaps	1,084,698	1,085,377

The contractual value of derivatives that meet the criteria for hedge accounting amounts to EUR 1,083,000 thousand. The difference in the amount of EUR 1,698 thousand comprises market interest rate swaps.

Derivatives that meet the criteria for hedge accounting are used to hedge against interest rate risk.

The fair value and economic effects are disclosed in note 2.5.4 and 2.4.6.

2.6.2 Operations on behalf of and for the account of the Republic of Slovenia

As an authorised institution, on behalf of and for the account of the Republic of Slovenia SID Bank insures commercial and non-commercial transactions and insures against political risks that given their nature and level of risk the private reinsurance sector is not willing to take up or has limited capacity to take up.

As an authorised institution, on behalf of and for the account of the Republic of Slovenia SID Bank also provides an export credit interest rate equalisation programme.

Operations on behalf of and for the account of the Republic of Slovenia are not included in SID Bank's consolidated financial statements. They are recorded in separate items set out for the administration of such operations by the Bank of Slovenia.

31 Dec 2012	Insurance on behalf of and for the account of the Republic of Slovenia	Interest Rate Equalisation Programme	Total
Assets			
Cash in transaction accounts	7	2	9
Receivables from financial instruments	136,688	8,072	144,760
- loans	*68,332*	*3,436*	*71,768*
- available-for-sale financial assets	*63,944*	*4,548*	*68,492*
- other	*4,412*	*88*	*4,500*
Total assets	136,695	8,074	144,769
Liabilities			
Liabilities to clients from cash and financial instruments	136,695	8,074	144,769
Total off-balance-sheet liabilities	136,695	8,074	144,769
Memorandum account for brokerage	689,273	6,638	695,911

31 Dec 2011	Insurance on behalf of and for the account of the Republic of Slovenia	Interest Rate Equalisation Programme	Total
Assets			
Cash in transaction accounts	4	3	7
Receivables from financial instruments	128,684	7,761	136,445
- loans	*86,005*	*3,178*	89,183
- available-for-sale financial assets	*42,679*	*4,583*	47,262
- other	*955*	*76*	*1,031*
Total assets	129,643	7,840	137,483
Liabilities			
Liabilities to clients from cash and financial instruments	129,643	7,840	137,483
Total off-balance-sheet liabilities	129,643	7,840	137,483
Memorandum account for brokerage	747,571	9,294	756,865

The memorandum account for brokerage represents an exposure deriving from valid insurance policies and commitments in respect of insurance on behalf of and for the account of the Republic of Slovenia, and derivatives as interest rate hedges in respect of the Interest Rate Equalisation Programme.

2.6.3 Related party disclosures

In ordinary operations specific banking transactions were also conducted with related parties, i.e. parties where one party controls the other or has a significant influence over its financial and business decisions.

Significant transactions between SID Bank and undertakings in the SID Bank Group are disclosed below. They are mutually excluded from the consolidated financial statements.

Significant relations with subsidiaries and joint ventures

	2012			2011		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Receivables						
- loans	*0*	*94,617*	*94,617*	*0*	*84,642*	*84,642*
- other financial assets	*11*	*0*	*11*	*11*	*0*	*11*
Gross exposure	11	94,617	94,628	11	84,642	84,653
Value adjustments	0	(5,544)	(5,544)	0	(5,482)	(5,482)
Net exposure	11	89,073	89,084	11	79,160	79,171

	2012			2011		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Interest income	0	4,923	4,923	0	4,972	4,972
Dividend income	1,632	0	1,632	2,574	0	2,574
Income from fees and commissions	0	140	140	0	105	105
Income from rents and other services	105	0	105	193	0	193
Expenses from rents and other services	(5)	0	(5)	(5)	(3)	(8)
Total	1,732	5,063	6,795	2,762	5,074	7,836

SID Bank issued comfort letters for the Prvi Faktor Group, which amounted to EUR 19.8 million as at 31 December 2012, compared with EUR 27.9 million as at 31 December 2011. The issued comfort letters do not entail any financial consequences for SID Bank, as they do not give rise to any payment obligation, which is where comfort letters differ significantly from sureties and guarantees, which SID Bank does not issue to the Prvi Faktor Group for the purposes of borrowing.

Exposure to Republic of Slovenia and to government-owned undertakings

The Bank has contractual relations with undertakings related to the government. All transactions have been conducted at market terms.

	SID Bank		SID Bank Group	
Exposure to:	2012	2011	2012	2011
Bank of Slovenia				
Balance as at 31 Dec				
- settlement account	408	10	408	10
- deposits	0	41,687	0	41,687
- securities as collateral	249,910	105,075	249,910	105,075
- loans as collateral	29,182	0	29,182	0
For period				
- interest income	44	9	44	9

Exposure to:	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Republic of Slovenia				
Balance as at 31 Dec				
- bonds	75,066	58,888	82,658	66,014
- other securities	69,422	37,652	70,906	39,066
- loans	402	0	402	3,110
- impairments	0	0	0	(54)
For period				
- interest income	4,089	1,200	4411	1,456
- other income	75	0	75	2
- impairments and provisions	0	0	0	(12)
Government-owned undertakings				
Balance as at 31 Dec				
- loans	2,407,931	2,392,884	2,375,214	2,387,560
- impairments	(40,559)	(39,766)	(35,254)	(38,345)
- securities	20,424	31,428	31,125	46,478
- impairments	0	(487)	(2,150)	(487)
- contingent liabilities and assumed commitments	58,180	31,939	58,180	31,984
- provisions	(7,061)	(445)	(7,061)	(445)
- other	0	0	534	566
- estimated recourse receivables	0	0	7,176	6,908
- impairments of estimated recourse receivables	0	0	(1,034)	(1,134)
For period				
- interest income	80,953	80,268	78,860	79,476
- other income	1,216	1,089	10,509	10,392
- other income from recourse receivables	0	0	1,630	3,206
- impairments from recourse receivables	0	0	(167)	(502)
- net reinsurance expenses (income - expenses)	0	0	58	(1,825)
- impairments and provisions	(16,044)	(21,812)	(15,946)	(21,562)
- other expenses	0	(10)	(5,592)	(7,599)

2.6.4 Remuneration system

In the decision-making process about the Bank's remuneration policy, a proposal by the staff was discussed by the management board, the remuneration and HR committee and the supervisory board, which also approved the policy. The remuneration and HR committee has four members (three members of the supervisory board and an outside expert). Its main powers in connection with the remuneration system are taking positions on individual aspects of remuneration policy, reviewing the relevance of the general principles of remuneration policy and the level to which remuneration policy complies with the Bank's business policy over the long term, and assessing the appropriateness of methodologies on the basis of which the remuneration system encourages proper risk management.

The remuneration policy defines the management board, the assistant to the management board, the head of the internal control system and the heads of other independent control functions, and those directly responsible for taking up risk with a significant influence on the Bank's risk profile (members of the liquidity committee, members of the credit committee and the management board) as employees whose work is of a special nature. The main criteria for determining the significance of their influence on the risk profile are the nature of the work and their powers and responsibilities with regard to concluding transactions and taking up risks.

Employees with the power to conclude transactions of more than EUR 2,000 are classed as being directly responsible for taking up risk. The criterion of significance in their impact on the Bank's risk profile is determined quantitatively, with regard to the current criteria for significant items in the statement of financial position used for the needs of compiling the Bank's annual report. The current criterion is 1% of the Bank's assets.

Under the remuneration policy, the fixed portion of earnings account for at least 75% of the average employee's total earnings for all types of employee. The variable portion of earnings is paid to employees whose work is of a special nature (other than members of the management board and the assistant to the management board) in the same manner as to the other employees at the Bank, on the basis of on-the-job performance, which is assessed in terms of criteria of the quantity and quality of work, efficiency in the job, and the attitude to colleagues and clients. The Bank can determine monthly sums in the amount of 10% of the payroll, or annual sums of up to 20% of the annual wage bill. Each organisational unit is entitled to a proportionate amount, while the allocation between employees is decided by the head of the organisational unit on the basis of each employee's on-the-job performance; the management board makes decisions on payments for on-the-job performance to the heads of the organisational units. Each month the management board may approve additional funds for on-the-job performance payments to an individual employee, although the total payment may not exceed 20% of the employee's basic earnings.

Payments of no more than the equivalent of one average gross monthly wage measured in the current year may be made on the basis of on-the-job performance to an individual employee, provided that the employee has been employed at the undertaking for at least six months without interruption. The management board rules on on-the-job performance payments, and the amount and timing of payments via a special resolution. A performance-related bonus for 2011 was paid in 2012.

The criteria for performance-related pay (based on which variable earnings are determined) for members of the Bank's management board and, indirectly, the assistant to the management board are set out by the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD).

The accounting period is identical to the calendar year, and monthly assessment of on-the-job performance applies to employees whose work is of a special nature and whose employment agreement has been concluded in accordance with the collective agreement. A portion of the variable remuneration is deferred to after the end of the accounting period: the remuneration policy is for a three-year deferral in the remuneration for the president and other member of the management board and for the assistant to the management board. For other employees there is the possibility of omission in accordance with the regulations governing employee remuneration at banks.

Under the ZSIRB, the Bank may not pay the variable portion of the remuneration in the form of prescribed financial instruments.

Remuneration of members of the supervisory board and employees whose work is of a special nature in 2012

The remuneration from session fees and reimbursements of travel expenses of members of the supervisory board, the audit committee and the remuneration and HR committee in place until 5 April 2012, was as follows: Ms Andreja Kert (president of the supervisory board and chairman of the remuneration and HR committee) EUR 10 thousand, Mr Samo Hribar Milič (deputy-president of the supervisory board and deputy-chairman of the remuneration and HR committee) EUR 7.2 thousand, Dr Aleš Berk Skok (member of the supervisory board and deputy-chairman of the audit committee) EUR 6.8 thousand (including EUR 0.02 thousand in travel expenses), Mr Gregor Kastelic (member of the supervisory board, chairman of the audit committee, and member of the remuneration and HR committee) EUR 10.4 thousand (including travel expenses of EUR 1.5 thousand), Dr Marko Jaklič (member of the supervisory board) EUR 5.2 thousand, Dr Peter Kraljič (member of the supervisory board) EUR 5.1 thousand and Mr Hugo Bosio (member of the supervisory board) EUR 4.9 thousand.

The remuneration from session fees and reimbursements of travel expenses of members of the supervisory board, the audit committee and the remuneration and HR committee in place since 5 April 2012, was as follows: Mr Matej Runjak (president of the supervisory board and chairman of the remuneration and HR committee) EUR 27.1 thousand, Mr Janez Tomšič (deputy-president of the supervisory board and deputy-chairman of the remuneration and HR committee) EUR 19 thousand, Mr Martin Jakše (member of the supervisory board and chairman of the audit committee) EUR 21.8 thousand (including EUR 0.09 thousand in travel expenses), Mr Marjan Divjak (member of the supervisory board and member of the audit committee) EUR 19 thousand, Mr Robert Ličen (member of the supervisory board and member of the audit committee) EUR 18.8 thousand, Mr Milan Matos (member of the supervisory board and member of the remuneration and HR committee) EUR 18.1 thousand and Mr Štefan Grosar (member of the supervisory board) EUR 14.8 thousand.

The remuneration from session fees and reimbursements of travel expenses of external members of the audit committee and the remuneration and HR committee during both supervisory board terms was as follows: Ms Blanka Vezjak (external member of the audit committee) EUR 6.2 thousand (including EUR 0.6 thousand of travel expenses) and Ms Alenka Stanič (external member of the remuneration and HR committee) EUR 4.6 thousand.

Representatives of SID Bank on the supervisory bodies of subsidiaries did not receive session fees or other remuneration for supervisory duties at undertakings in the SID Bank Group in 2012.

A total of EUR 979 thousand was paid to employees whose work is of a special nature at SID Bank in 2012, of which EUR 345 thousand went to the management board (EUR 180 thousand to the president Mr Sibil Svilan, and EUR 165 thousand to Mr Jožef Bradeško), while EUR 634 thousand went to other areas. The fixed portion of the remuneration paid to the 12 employees whose work is of a special nature amounted to EUR 851 thousand, and the variable portion to EUR 128 thousand, of which EUR 46 thousand went to the management board (EUR 24 thousand to Mr Svilan, and EUR 22 thousand to Mr Bradeško). The deferred variable portion of the management board's remuneration amounted to EUR 55 thousand (EUR 29 thousand for Mr Svilan and EUR 26 thousand for Mr Bradeško), and there were no payments made on this basis in 2012.

The management board's remaining remuneration in 2012 comprised insurance premiums (EUR 5 thousand for Mr Svilan and EUR 4 thousand for Mr Bradeško) and reimbursements of expenses (EUR 1 thousand for Mr Bradeško).

2.6.5 Total amount spent on the auditor

	SID Bank		SID Bank Group	
	2012	2011	2012	2011
Auditing of the annual report	56	71	121	144
Other auditing services	33	79	53	116
Tax advice	0	0	1	2
Total	89	150	175	261

2.6.6 Events after the reporting period

There were no events after the reporting date that would have an impact on the separate and consolidated financial statements of SID Bank and the SID Bank Group.

On 21 February 2013 supervisory board members Mr Matej Runjak and Mr Robert Ličen were dismissed, and Ms Monika Pintar Mesarič and Mr Leo Knez were appointed in their place.

3. Risk management

3.1 Credit risk

Credit risk is the risk of a loss as a result of the failure of a debtor to discharge its liabilities, irrespective of the reason of this failure. The management of credit risk begins before a contractual relationship is concluded with the determination of the client's creditworthiness and the establishment of eligible collateral. Credit exposure is approved by the credit committee. Throughout the lifetime of an investment transaction credit risk is managed by means of the monitoring and management of the credit portfolio, the limitation of concentrations of credit risk in relation to individual clients, groups of connected clients, sectors and countries, the rating process and the creation of impairments and provisioning for expected losses, and the provision of adequate capital for cases when losses exceed expectations.

In credit and guarantee transactions credit risk entails the risk of default with regard to the debtor's financial position and also the risk related to the geographical location of the debtor's country. Credit risk from securities derives from the portfolio managed by SID Bank for the purpose of ensuring liquidity and managing the balance sheet. SID Bank does not undertake trading. SID Bank manages this credit risk primarily by means of limits on exposure with regard to the issuer's credit rating, the issuer's location, the type of issuer and the type of instrument, and the monitoring of market values of securities. Counterparty credit risk in the settlement of transactions in securities and in relation to derivatives is also taken into account. SID Bank calculates its exposure to credit risk in relation to derivatives using an original exposure method. Exposure is managed within the framework of limits on exposure to credit risk, which are approved by the credit committee.

SID Bank classifies financial assets and commitments under off-balance-sheet items according to the Bank of Slovenia system of ratings from A to E, where A is assigned to clients with the highest rating and E is the lowest rating. The basis for classification consists of internal credit ratings based on the assessment of quantitative and qualitative elements and Bank of Slovenia criteria for the classification of financial assets and commitments under off-balance-sheet items into credit ratings. Throughout the lifetime of a credit transaction the Bank monitors the debtor's performance and reviews the rating on a monthly basis.

SID Bank has its own methodology for the assessment of credit risk losses, which provides adequate coverage of expected losses from credit risk. Under the IFRS, debtors are rated on an individual basis, or in groups as part of the collective assessment of credit risk losses. These are created from groups of debtors with comparable risks, which are primarily related to the debtor's business activities, the debtor's geographical location and the attributes of the financing products. The largest proportion of SID Bank's credit portfolio consists of investment transactions classified into a group of banks from countries that are given a risk rating of 0 or 1 under the minimum export insurance premium (MEIP) listing.

As at 31 December 2012 SID Bank had total impairments and provisioning of EUR 194,944 thousand, up EUR 74,802 thousand on 31 December 2011. Impairments for loans granted and other financial receivables amounted to EUR 180,457 thousand, provisions for off-balance-sheet liabilities to EUR 14,487 thousand, and impairments of available-for-sale financial assets to EUR 209 thousand. The impairments and provisioning derive from collective and individual loss assessments, where losses on C-rated exposures more than 90 days in arrears, D-rated exposures and E-rated exposures are generally assessed on an individual basis.

SID Bank and the SID Bank Group use the present value (discounted value) of expected future cash flows for the calculation of the recoverable amount. The amount of the impairment or provisioning represents the difference between the carrying amount and the recoverable amount of a financial asset or off-balance-sheet liability. The impairment and provisioning policy is described in detail in point 2.3.11.

SID Bank and the SID Bank Group have drawn up appropriate instructions in connection with the classification of debtors into individual ratings, the setting of exposure limits and the investment approval process. The instructions include all the requisite information, and the criteria and the method for rating financial assets and commitments assumed under off-balance-sheet items

Maximum exposure to credit risk

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
On-balance-sheet assets	**4,069,165**	**4,011,423**	**4,210,453**	**4,174,064**
Balances in accounts at central bank	408	41,696	409	41,697
Financial assets held for trading	1	3	1	3
Derivatives	1	3	1	3
Available-for-sale financial assets	309,755	212,240	333,854	243,646
Shares and participating interests at fair value	135	134	7,337	9,686
Debt securities	309,620	212,106	326,517	233,960
Loans	3,680,998	3,698,637	3,798,186	3,829,871
Loans to banks	3,031,156	2,997,154	3,057,451	3,018,972
Loans to non-banking clients	649,294	701,410	738,831	810,720
Other financial assets	548	73	1,904	179
Derivatives used for hedging	78,003	58,847	78,003	58,847
Off-balance-sheet liabilities	**100,833**	**49,524**	**101,348**	**51,479**
Guarantees	28,280	30,672	28,795	32,627
Other off-balance-sheet liabilities	72,553	18,852	72,553	18,852
Total	**4,169,998**	**4,060,947**	**4,311,801**	**4,225,543**

The table illustrates the net exposure to credit risk (gross exposure minus impairments and provisioning) of SID Bank and the SID Bank Group deriving from balances at the central bank, loans, investments in financial instruments and off-balance-sheet liabilities. SID Bank's exposure to credit risk as at 31 December 2012 was larger than as at 31 December 2011 as a result of available-for-sale debt securities, derivatives held for hedging and off-balance-sheet liabilities. The exposure from derivatives held for hedging increased as a result of a rise in their market values; SID Bank did not conclude any new transactions in derivatives in 2012. Off-balance-sheet liabilities increased as a result of approved but unused loans.

Breakdown of loan exposures by type of credit protection

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Carrying amount of secured loans	**319,025**	**366,837**	**345,989**	**400,118**
Secured by Slovenian government guarantee	13,672	24,427	22,232	32,511
Secured by guarantee of insurance corporations and banks	-	-	458	1,057
Securities collateral	21,491	34,608	30,749	48,201
Commercial real estate collateral	172,730	208,255	173,430	209,586
Other forms of credit protection	111,133	99,547	119,121	108,763
Carrying amount of unsecured loans	**3,361,973**	**3,331,800**	**3,452,197**	**3,429,753**
Carrying amount of loans	**3,680,998**	**3,698,637**	**3,798,186**	**3,829,871**

The table illustrates the breakdown of loan exposures by type of credit protection. Secured loans comprise loans where the fair value of the collateral is larger than or equal to the carrying amount of the loan. Where the fair value of the collateral is lower than the carrying amount, the loan is classed as secured in the amount of the fair value of the collateral, while the remainder of the loan is classed as unsecured. For loan agreements where not all disbursements have been made, collateral is taken into account proportionately with regard to the disbursed and undisbursed loan amounts.

The majority of SID Bank's credit portfolio comprises loans to banks established in Slovenia, who transfer the funding to the final beneficiaries in accordance with ZSIRB. The aforementioned loans are generally unsecured. SID Bank's total collateral value for exposures from loans and off-balance-sheet liabilities amounted to EUR 560,688 thousand as at 31 December 2012, compared with EUR 711,394 thousand as at 31 December 2011. In the breakdown of collaterals the largest value is that of commercial real estate collateral, followed by movable property collateral, fiduciary cession, fiduciary cession of title to real estate, corporate guarantees, collateral in the form of participating interests, equities collateral, the SID Bank insurance policy for the account of the Republic of Slovenia, and other credit protection.

On 31 December 2012 SID Bank undertook a revaluation of real estate collateral that was appraised before 2012, using a statistical method.

The total fair value of the collateral for loans granted at the SID Bank Group amounted to EUR 601,693 thousand as at 31 December 2012, compared with EUR 744,394 thousand as at 31 December 2011.

Breakdown of loan exposures by rating

	SID Bank			
	31 Dec 2012		31 Dec 2011	
	Loans	Impairments	Loans	Impairments
Total	**3,861,455**	**(180,457)**	**3,814,395**	**(115,758)**
Breakdown	**100.00%**	**100.00%**	**100.00%**	**100.00%**
A-rated	15.64%	8.59%	7.42%	3.51%
B-rated	63.26%	22.93%	86.91%	36.20%
C-rated	17.37%	22.97%	4.73%	39.58%
D-rated	3.19%	34.80%	0.44%	4.89%
E-rated	0.54%	10.71%	0.50%	15.82%

SID Bank disclosed a gross loan exposure of EUR 3,861,455 thousand as at 31 December 2012, up 1.2% on 31 December 2011. After impairments were taken into account, the carrying amount of the loans stood at EUR 3,680,998 thousand, down 0.4% on 31 December 2011. As at 31 December 2012 78.9% of total loans were rated A or B, compared with 94.33% as at 31 December 2011. The proportion of loans rated A increased from 7.42% as at 31 December 2011 to 15.64% as at 31 December 2012. The increase was the result of a change in the criteria for classifying the financial assets of non-banking clients, an improvement in the financial position of individual clients and new loans that were classified as A-rated. There were major changes in the breakdown of the credit portfolio in the B and C ratings as a result of downgradings of certain commercial banks. Exposure to D-rated and E-rated loans also increased, as a result of a rise in the number of insolvency proceedings and the number of defaulters. SID Bank created additional impairments of EUR 64,699 thousand in 2012.

The average coverage of exposure to credit risk by impairments and provisioning for non-banking clients stood at 18.08% as at 31 December 2012 (31 December 2011: 12.96%). The coverage of exposure to D- and E-rated non-banking clients by impairments and provisioning stood at 57.05% as at 31 December 2012 (31 December 2011: 68.11%).

Breakdown of loan exposures by segment

	31 Dec 2012				31 Dec 2011			
SID Bank	Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Gross loans	**3,068,291**	**792,584**	**580**	**3,861,455**	**3,009,619**	**804,680**	**97**	**3,814,396**
Non-past-due individually non- impaired loans	2,934,201	537,186	540	3,471,927	3,008,202	568,968	71	3,577,241
Past-due individually non- impaired loans	-	21,691	3	21,694	1,417	1,219	3	2,639
Individually impaired loans	134,090	233,707	37	367,834	-	234,493	23	234,516
of which D- and E-rated loans	-	139,002	24	139,026	-	35,941	23	35,964
Impairments	**(37,135)**	**(143,290)**	**(32)**	**(180,457)**	**(12,465)**	**(103,269)**	**(24)**	**(115,758)**
Individual impairments	(13,432)	(108,351)	(31)	(121,814)	-	(73,129)	(23)	(73,152)
of which impairments of D- and E-rated loans	-	(82,100)	(24)	(82,124)	-	(23,945)	(23)	(23,968)
Collective impairments	(23,703)	(34,939)	(1)	(58,643)	(12,465)	(30,140)	(1)	(42,606)
Net loans	**3,031,156**	**649,294**	**548**	**3,680,998**	**2,997,154**	**701,411**	**73**	**3,698,638**
Fair value of collateral	**5,559**	**545,688**	**-**	**551,247**	**8,064**	**690,035**	**-**	**698,099**

The increase in individually impaired loans was the result of the deterioration in the economy, which led to a rise in the number of defaulters and insolvency proceedings. Impairments also increased as a result: individual impairments in 2012 were up EUR 48,662 thousand on 2011, as an individual impairments for loans rated D and E increased by EUR 58,156 thousand while an individual impairments for loans rated B and C declined as a result of loans being downgraded to D or E ratings. The percentage coverage by collective impairments for banks from countries assigned a risk rating of 0 or 1 under the MEIP listing increased in 2012. The majority of SID Bank's credit portfolio is classified into the aforementioned group, as in accordance with ZSIRB it provides loans to banks established in Slovenia, who transfer the funding to the final beneficiaries.

SID Bank Group	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	31 Dec 2011 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Gross loans	**3,094,624**	**899,136**	**1,947**	**3,995,707**	**3,031,447**	**931,300**	**561**	**3,963,308**
Non-past-due individually non- impaired loans	2,960,252	603,786	1,830	3,565,868	3,029,748	652,176	163	3,682,087
Past-due individually non- impaired loans	1	29,091	69	29,161	1,417	9,988	18	11,423
Individually impaired loans	134,371	266,259	48	400,678	282	269,136	380	269,798
Impairments	**(37,173)**	**(160,305)**	**(44)**	**(197,521)**	**(12,476)**	**(120,579)**	**(382)**	**(133,437)**
Individual impairments	(13,470)	(130,580)	(43)	(144,093)	(11)	(95,525)	(381)	(95,917)
Collective impairments	(23,703)	(29,725)	(1)	(53,429)	(12,465)	(25,054)	(1)	(37,520)
Net loans	**3,057,451**	**738,831**	**1,904**	**3,798,186**	**3,018,972**	**810,721**	**179**	**3,829,871**
Fair value of collateral	**5,559**	**595,652**	**482**	**601,693**	**8,064**	**736,330**	**-**	**744,394**

Loans neither past-due nor individually impaired

SID Bank	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	31 Dec 2011 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Total	**2,934,201**	**537,186**	**540**	**3,471,927**	**3,008,202**	**568,968**	71	**3,577,241**
A-rated	389,900	213,747	454	604,101	219,892	62,901	57	**282,850**
B-rated	2,093,045	289,384	4	2,382,433	2,777,641	494,002	7	**3,271,650**
C-rated	451,256	29,048	82	480,386	10,669	12,065	7	**22,741**
D-rated	-	5,007	-	5,007	-	-	-	**-**
E-rated	-	-	-	-	-	-	-	**-**
Fair value of collateral	**5,559**	**332,349**	**-**	**337,908**	**6,706**	**377,267**	-	**383,973**

Loans past-due but not individually impaired

SID Bank	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	31 Dec 2011 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Total	**-**	**21,691**	**3**	**21,694**	**1,417**	**1,219**	**3**	**1,222**
Up to 30 days in arrears	-	19,704	3	19,707	1,417	1,219	2	1,221
30 to 90 days in arrears	-	1,803	-	1,803	-	-	1	1
More than 90 days in arrears	-	184	-	184	-	-	-	-
Fair value of collateral	**-**	**41,421**	**-**	**41,421**	**1,358**	**4,027**	**-**	**5,385**

SID Bank Group	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	31 Dec 2011 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Total	**1**	**29,091**	**70**	**29,161**	**1,417**	**9,988**	**18**	**11,423**
Up to 30 days in arrears	1	24,147	59	24,207	1,417	6,008	17	7,442
30 to 90 days in arrears	-	3,309	5	3,314	-	1,952	1	1,953
More than 90 days in arrears	-	1,635	6	1,641	-	2,028	-	2,028
Fair value of collateral	**-**	**49,972**	**-**	**49,972**	**1,358**	**14,547**	**-**	**15,905**

Individually impaired loans

SID Bank	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	31 Dec 2011 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Total	**134,090**	**233,707**	**37**	**367,834**	**-**	**234,493**	**23**	**234,516**
Non-past-due	134,090	88,631	-	222,721	-	174,100	-	**174,100**
Up to 30 days in arrears	-	15,728	-	15,728	-	14,402	-	14,402
30 to 90 days in arrears	-	9,459	-	9,459	-	-	-	-
More than 90 days in arrears	-	119,889	37	119,926	-	45,991	23	46,014
Fair value of collateral	**-**	**171,918**	**-**	**171,918**	**-**	**308,741**	**-**	**308,741**

SID Bank Group	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	31 Dec 2011 Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Total	**134,372**	**266,259**	**49**	**400,679**	**282**	**269,136**	**381**	**269,799**
Non-past-due	134,090	92,886	-	226,976	-	179,754	354	**180,108**
Up to 30 days in arrears	-	15,987	8	15,995	-	15,416	-	15,416
30 to 90 days in arrears	-	9,769	-	9,769	282	2,673	-	2,955
More than 90 days in arrears	282	147,618	41	147,940	-	71,294	27	71,321
Fair value of collateral	**-**	**188,139**	**-**	**188,139**	**-**	**332,795**	**-**	**332,795**

The gross exposure to past-due receivables from loans as at 31 December 2012 amounted to EUR 166,807 thousand at SID Bank and to EUR 202,865 thousand at the SID Bank Group. SID Bank has outstanding past-due receivables from loans to 20 undertakings in Slovenia and one undertaking in Montenegro. Other undertakings in the SID Bank Group disclosed the majority of outstanding past-due receivables from 53 undertakings, among them 18 from Slovenia, 11 from Croatia and 13 from Bosnia and Herzegovina.

SID Bank's past-due exposures from loans are secured by commercial real estate collateral, SID Bank insurance policies for the account of the Republic of Slovenia, collateral in the form of equities and participating interests, movable property collateral, fiduciary cession, corporate guarantees, sureties by private individuals, and other forms of credit protection.

The recovery and redemption procedure at SID Bank and the SID Bank Group is set out in internal rulebooks. Recovery proceeds in accordance with internal procedures, and can vary from case to case. The type of recovery depends primarily on the length of the arrears, the amount of outstanding past-due liabilities and the exposure to the debtor at SID Bank and the SID Bank Group.

Each recovery begins with a verbal and written reminder to the debtor, irrespective of the recovery method and the recovery contractor. The reminder procedure begins on the business day immediately following the debtor's entry into arrears in the performance of monetary or non-monetary obligations. Reminders are given by telephone, by email and in writing, and include offsetting and any other activities that could expedite the faster, more efficient and more effective repayment of past-due receivables. The decision of which reminder methods to employ is based on the experience of transactions with the debtor and other circumstances of the case, with the aim of ensuring that the obligations are performed. Reminders call on the debtor to perform the obligations, and set a deadline by which the obligations are to be performed.

When the reminder procedure ends in failure, or the investment transaction cannot be restructured or the restructuring proposal is rejected by the credit committee, procedures are initiated to ensure the repayment of outstanding past-due receivables from collateral instruments that are exercisable without preliminary procedures and conclusion of agreements with debtors about alternative methods for repaying the debt as proceeds from the underlying contract on the investment transaction.

Should the dialogue with the debtor be unsuccessful, judicial recovery is initiated, and is conducted by the distressed investment management department. It begins with reminders sent before the lawsuit, contacts with debtors, the filing of claims and/or enforcement motions with the court, and other activity in the judicial recovery procedure, and the registration of the undertaking's receivables in composition, bankruptcy or liquidation proceedings or other proceedings.

Restructured loans

	31 Dec 2012				31 Dec 2011			
SID Bank	Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Gross loans	**72,159**	**64,342**	**-**	**136,501**	**-**	**220,087**	**-**	**220,087**
Non-past-due individually non- impaired loans	37,166	20,444	-	57,610	-	131,485		131,485
Past-due individually non- impaired loans	-	-	-	-	-	1,219		1,219
Individually impaired loans	34,993	43,898	-	78,891	-	87,383		87,383
of which D- and E-rated loans	-	6,374	-	6,374	-	-		-
				-				-
Impairments	**(3,803)**	**(19,045)**	**-**	**(22,848)**	**-**	**(29,518)**	**-**	**(29,518)-**
Individual impairments	(3,505)	(17,729)	-	(21,234)	-	(22,025)		(22,025)-
of which impairments of D- and E-rated loans	-	(1,210)	-	(1,210)	-	-		-
Collective impairments	(298)	(1,316)	-	(1,614)	-	(7,493)		(7,493)-

SID Bank Group	31 Dec 2012				31 Dec 2011			
	Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total	Loans to banks	Loans to non-banking clients	Other financial assets	Loans Total
Gross loans	**72,159**	**64,565**	**-**	**136,724**	**-**	**183,398**	**-**	**183,398**
Non-past-due individually non- impaired loans	37,166	15,584	-	52,750	-	90,047	-	90,047
Past-due individually non- impaired loans	-	36	-	36	-	1,315	-	1,315
Individually impaired loans	34,993	48,945	-	83,938	-	92,036	-	92,036
				-				-
Impairments	**(3,803)**	**(21,468)**	**-**	**(25,271)**	**-**	**(27,012)**		**(27,012)**
Individual impairments	(3,505)	(21,022)	-	(24,527)	-	(24,883)		(24,883)
Collective impairments	(298)	(447)	-	(745)	-	(2,130)		(2,130)

The carrying amount of restructured loans (gross exposure minus impairments) at SID Bank amounted to EUR 113,653 thousand as at 31 December 2012 (31 December 2011: EUR 190,569 thousand). New agreements on repayment terms were reached with nine Slovenian undertakings and one foreign undertaking.

The carrying amount of restructured loans at the SID Bank Group amounted to EUR 111,453 thousand as at 31 December 2012 (31 December 2011: EUR 156,386 thousand). Restructured loans of material significance in value terms were concluded with 31 undertakings at the SID Bank Group. New agreements on loan restructuring at the SID Bank Group were reached with 19 Slovenian and 12 foreign undertakings.

Breakdown of available-for-sale securities by issuer's rating

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Debt securities	**309,755**	**212,240**	**333,855**	**243,646**
AAA	45,297	33,005	47,274	34,910
AA- to AA+	28,569	4,851	29,569	15,369
A- to A+	52,222	126,656	64,925	133,832
Below A-	160,251	23,987	160,551	25,029
Unrated	23,416	23,740	31,536	34,506

The table illustrates the breakdown of the carrying amount of available-for-sale securities in terms of the issuer's international credit rating. Where the issuer has been assessed by several international rating agencies (Moody's, S&P and Fitch Ratings), the principle of prudence dictates that the lowest rating apply.

A detailed breakdown of the securities portfolio as at 31 December 2012 is given in point 2.5.2.

Exposure to credit risk from derivatives used for hedging

	SID Bank and SID Bank Group	
	31 Dec 2012	31 Dec 2011
Derivatives used for hedging	**78,003**	**58,847**
Interest rate swaps	78,003	58,847

As at 31 December 2012 SID Bank held eight interest rate swaps as fair value hedges used in hedge accounting, in the total nominal amount of EUR 1,083,000 thousand. SID Bank did not conclude any new transactions in derivatives in 2012.

Breakdown of exposure to credit risk by geographical region

SID Bank	Slovenia	Other EU members	South-eastern and eastern Europe (excluding EU members)	Other countries	Total
Financial assets as at 31 Dec 2012	**3,557,824**	**382,097**	**122,068**	**7,176**	**4,069,165**
Balances in accounts at central bank	408				408
Financial assets held for trading	1				1
Derivatives	1				1
Available-for-sale financial assets	177,577	125,948	4,050	2,180	309,755
Shares and participating interests at fair value	134	-	-	-	134
Debt securities	177,443	125,948	4,050	2,180	309,621
Loans	3,360,540	197,444	118,018	4,996	3,680,998
Loans to banks	2,822,436	188,788	19,932	-	3,031,156
Loans to non-banking clients	537,560	8,651	98,086	4,996	649,294
Other financial assets	544	4	-	-	548
Derivatives used for hedging	19,298	58,705	-	-	78,003
Financial assets as at 31 Dec 2011	**3,641,583**	**227,121**	**135,819**	**6,900**	**4,011,423**

The table illustrates the breakdown of net exposure to credit risk by geographical region as defined by the registered office of the debtor.

SID Bank is exposed to the PIIGSSHC countries (Portugal, Ireland, Italy, Greece, Spain, Slovenia, Hungary and Cyprus) in the amount of EUR 3,559,206 thousand, of which exposure to Slovenia amounts to EUR 3,557,824 thousand, exposure to Ireland to EUR 1,000 thousand (available-for-sale financial assets and other financial assets), exposure to Italy to EUR 3 thousand (other financial assets) and exposure to Cyprus to EUR 379 thousand (available-for-sale financial assets).

SID Bank's exposure to Slovenia as at 31 December 2012 was down EUR 83,759 thousand on 31 December 2011, while exposure to other EU members was up EUR 154,976 thousand. SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions.

SID Bank Group	Slovenia	Other EU members	South-eastern and eastern Europe (excluding EU members)	Other countries	Total
Financial assets as at 31 Dec 2012	**3,586,031**	**373,442**	**243,607**	**7,374**	**4,210,454**
Balances in accounts at central bank	408	-	1	-	409
Financial assets held for trading	1	-	-	-	1
Derivatives	1	-	-	-	1
Available-for-sale financial assets	196,788	130,741	4,050	2,275	333,854
Shares and participating interests at fair value	7,335	1	-	-	7,336
Debt securities	189,453	130,740	4,050	2,275	326,518
Loans	3,369,536	183,996	239,556	5,099	3,798,187
Loans to banks	2,834,287	188,788	34,377	-	3,057,452
Loans to non-banking clients	534,711	(4,796)	203,817	5,099	738,831
Other financial assets	538	4	1,363	-	1,905
Derivatives used for hedging	19,298	58,705	-	-	78,003
Financial assets as at 31 Dec 2011	**3,679,035**	**221,078**	**266,937**	**7,016**	**4,174,065**

Breakdown of exposure to credit risk by sector

SID Bank	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade	Transportation and storage	Professional, scientific and technical activities	Other	Total
Financial assets as at 31 Dec 2012	**3,324,133**	**235,371**	**233,776**	**105,562**	**44,882**	**33,104**	**92,337**	**4,069,165**
Balances in accounts at central bank	408	-	-	-	-	-	-	408
Financial assets held for trading	1	-	-	-	-	-	-	1
Derivatives	1	-	-	-	-	-	-	1
Available-for-sale financial assets	86,616	-	197,330	4,108	220	-	21,481	309,755
Shares and participating interests at fair value	135	-	-	-	-	-	-	135
Debt securities	86,481		197,330	4,108	220		21,481	309,620
Loans	3,159,105	235,371	36,446	101,454	44,662	33,104	70,856	3,680,998
Loans to banks	3,031,156	-	-	-	-	-	-	3,031,156
Loans to non-banking clients	127,863	235,353	36,026	101,454	44,662	33,083	70,853	649,294
Other financial assets	86	18	420	-	-	21	3	548
Derivatives used for hedging	78,003	-	-	-	-	-	-	78,003
Financial assets as at 31 Dec 2011	**3,320,241**	**255,753**	**150,426**	**115,982**	**51,613**	**33,671**	**83,737**	**4,011,423**

In 2012 SID Bank was again most heavily exposed to the financial and insurance activities sector, as the majority of its assets are earmarked for banks established in Slovenia, which transfer funding to the final beneficiaries in accordance with ZSIRB. The largest increase between 31 December 2011 and 31 December 2012 was recorded by the exposure to the public administration and defence sector, SID Bank having begun a programme of (co-) financing local government infrastructure and environmental projects during 2012.

SID Bank Group	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade	Transportation and storage	Professional, scientific and technical activities	Other	Total
Financial assets as at 31 Dec 2012	**3,315,540**	**274,158**	**249,367**	**174,521**	**48,461**	**37,079**	**111,329**	**4,210,454**
Balances in accounts at central bank	409	-	-	-	-	-	-	409
Financial assets held for trading	1	-	-	-	-	-	-	1
Derivatives	1	-	-	-	-	-	-	1
Available-for-sale financial assets	92,494	-	208,350	11,309	220	-	21,481	333,854
Shares and participating interests at fair value	136	-	-	7,201	-	-	-	7,337
Debt securities	92,358	-	208,350	4,108	220	-	21,481	326,517
Loans	3,144,633	274,158	41,017	163,213	48,241	37,079	89,848	3,798,187
Loans to banks	3,057,452	-	-	-	-	-	-	3,057,452
Loans to non-banking clients	87,105	273,360	40,592	163,091	48,241	37,058	89,386	738,831
Other financial assets	76	798	425	122	-	21	462	1,904
Derivatives used for hedging	78,003	-	-	-	-	-	-	78,003
Financial assets as at 31 Dec 2011	**3,318,224**	**293,232**	**166,568**	**191,706**	**56,647**	**39,440**	**108,249**	**4,174,065**

3.2 Liquidity risk

Liquidity risk is the risk of losses arising when a bank is unable to settle all its maturing liabilities, or when a bank is unable to provide enough funds to settle liabilities at maturity and is thus compelled to provide the necessary funds at significantly higher costs than normal. The greater the mismatch between interest and principal on the asset side and the liability side, and in off-balance-sheet items, the higher is the risk of illiquidity.

Liquidity risk in the narrower sense arises when a bank is unable to repay its liabilities via investment transactions. These liabilities are usually settled using cash inflows, readily convertible assets and borrowed funding. Liquidity risk in the broader sense is the risk that a bank will have to additionally borrow at a higher interest rate, and the risk that a bank will be compelled to sell non-monetary investments at a discount owing to the need for liquidity. At SID Bank this risk is low, given the surplus position in current liquidity and the adequate secondary liquidity, a significant proportion of which consists of government securities and other high-quality highly liquid securities.

SID Bank does not accept deposits, and is therefore not exposed to liquidity risk in the traditional sense. Problems can nevertheless arise if a debtor falls into arrears in the repayment of a loan or fails to repay a loan, or if SID Bank is unable to replace its existing liabilities as they mature with new funding. SID Bank has precisely defined procedures for its action in such an eventuality. It also calculates liquidity ratios for a baseline scenario, and discusses a stress scenario on a weekly basis on the liquidity committee. The asset/liability committee examines whether the assumptions used in the scenarios are appropriate.

The management of liquidity risk at SID Bank and the SID Bank Group is undertaken in accordance with the liquidity risk management policy, which defines the procedures for managing assets and funding in domestic and foreign currency on a daily basis and also over the long term. SID Bank and the SID Bank Group manage liquidity risk by means of the proper planning of inflows and outflows, which is undertaken separately for own account transactions, the contingency reserve and the Interest Rate Equalisation Programme reserves, and by means of an adequate stock of highly liquid financial assets. Under the liquidity risk management policy SID Bank and the SID Bank Group ensure the regular settlement of all monetary liabilities, and the high-quality management of operational and structural liquidity.

SID Bank monitors and measures its exposure to liquidity risk on the basis of the daily calculation of liquidity ratios in the manner set out by current banking legislation as prescribed by the Regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks. The liquidity ratio is the ratio of the sum of financial assets in domestic and foreign currency to the sum of funding in domestic and foreign currency with regard to residual maturity. The first-bucket liquidity ratio (up to 30 days) must be at least 1, while the second-bucket liquidity ratio (up to 180 days) is of an informative nature. SID Bank has set internal liquidity ratios that are higher than those prescribed by law, which provides additional security. Should the first-bucket liquidity ratio fall to 1.2 or the second-bucket liquidity ratio fall to 1.1, the treasury department is obliged to put forward measures to safeguard sufficient liquidity. The daily values of the first-bucket liquidity ratio surpassed the Bank of Slovenia's legal requirements in 2012. The first-bucket liquidity ratio stood at 6.48 as at 31 December 2012, while the second-bucket liquidity ratio stood at 5.73.

SID Bank calculates the liquidity coverage ratio (LCR) as envisaged in Basel III on a three-monthly basis, the values surpassing the prescribed level. The calculation is presented to the liquidity committee.

In conjunction with other organisational units at SID Bank the treasury department carries out weekly and monthly planning of liquidity flows, and simulations of the first-bucket liquidity ratio for the upcoming period. When it is necessary to improve operational or structural liquidity, the treasury department proposes measures to manage the aforementioned risks to the liquidity committee (lengthening the maturities of liability transactions, shortening the maturities of asset transactions, raising deposits and credit lines on the money market, reducing guarantee and credit potential). For the purpose of raising additional reserves of daily liquidity from the central bank and from other banks, SID Bank has a portfolio of securities permanently available to act as collateral for such receivables.

Breakdown of financial assets and financial liabilities by residual maturity as at 31 December 2012

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**125,875**	**302,154**	**201,422**	**1,994,338**	**1,445,376**	**4,069,165**
Balances in accounts at central bank	408	0	0	0	0	408
Financial assets held for trading	1	0	0	0	0	1
Available-for-sale financial assets	4,122	25,852	77,426	176,728	25,627	309,755
Loans	69,478	276,302	97,858	1,817,610	1,419,750	3,680,998
Loans to banks	66,838	272,688	73,617	1,547,596	1,070,416	3,031,156
Loans to non-banking clients	2,335	3,388	24,223	270,014	349,333	649,294
Other financial assets	304	225	19	0	0	548
Derivatives used for hedging	51,866	0	26,137	0	0	78,003
Financial liabilities	**838**	**11**	**277,184**	**2,088,366**	**1,367,121**	**3,733,520**
Financial liabilities to central bank	0	0	0	206,592	0	206,592
Financial liabilities held for trading	28	0	16	0	0	44
Financial liabilities measured at amortised cost	810	11	277,168	1,881,774	1,367,121	3,526,884
Deposits and loans from banks	0	0	65,173	707,721	1,196,026	1,968,920
Deposits and loans from non-banking clients	5	0	0	37,532	112,531	150,068
Debt securities	0	0	211,639	1,136,522	58,564	1,406,725
Other financial liabilities	805	11	356	0	0	1,171
Liquidity gap as at 31 Dec 2012	**125,037**	**302,143**	**(75,762)**	**(94,028)**	**78,255**	**335,645**
Assumed irrevocable liabilities	**8,636**	**100**	**29,633**	**39,029**	**22,108**	**99,506**
Financial assets as at 31 Dec 2011	203,674	166,675	149,033	2,035,073	1,457,211	4,011,666
Financial liabilities as at 31 Dec 2011	85,852	50,261	352,217	1,862,681	1,341,328	3,692,339
Liquidity gap as at 31 Dec 2011	**117,822**	**116,414**	**(203,184)**	**172,392**	**115,883**	**319,327**
Assumed irrevocable liabilities as at 31 Dec 2011	1,772	129	7,418	14,361	22,326	46,006

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**196,339**	**362,521**	**239,073**	**1,962,862**	**1,449,658**	**4,210,453**
Balances in accounts at central bank	409	0	0	0	0	409
Financial assets held for trading	1	0	0	0	0	1
Available-for-sale financial assets	11,326	26,776	78,925	186,918	29,909	333,854
Loans	132,737	335,745	134,011	1,775,943	1,419,749	3,798,186
Loans to banks	82,409	279,350	77,680	1,547,596	1,070,416	3,057,451
Loans to non-banking clients	49,662	55,682	55,808	228,346	349,333	738,831
Other financial assets	666	714	523	2	0	1,904
Derivatives used for hedging	51,866	0	26,137	0	0	78,003
Financial liabilities	**4,635**	**66,651**	**313,762**	**2,088,698**	**1,367,121**	**3,840,866**
Financial liabilities to central bank	0	0	0	206,592	0	206,592
Financial liabilities held for trading	28	0	16	0	0	44
Financial liabilities measured at amortised cost	4,607	66,651	313,746	1,882,106	1,367,121	3,634,230
Deposits and loans from banks	2,294	66,436	101,726	708,052	1,196,026	2,074,533
Deposits and loans from non-banking clients	5	0	0	37,532	112,531	150,068
Debt securities	0	0	211,639	1,136,522	58,564	1,406,725
Other financial liabilities	2,308	215	381	0	0	2,904
Liquidity gap as at 31 Dec 2012	**191,704**	**295,870**	**(74,689)**	**(125,836)**	**82,537**	**369,587**
Assumed irrevocable liabilities	**9,032**	**219**	**29,633**	**39,029**	**22,108**	**100,021**
Financial assets as at 31 Dec 2011	278,549	232,514	155,894	2,045,859	1,461,492	4,174,307
Financial liabilities as at 31 Dec 2011	95,666	102,013	412,118	1,867,444	1,341,328	3,818,568
Liquidity gap as at 31 Dec 2011	**182,883**	**130,501**	**(256,224)**	**178,415**	**120,164**	**355,739**
Assumed irrevocable liabilities as at 31 Dec 2011	2,903	940	7,432	14,361	22,326	47,961

The breakdown of financial assets and financial liabilities by residual maturity illustrates the management of liquidity risk in connection with credit risk. The items are disclosed in net amounts (gross amounts minus impairments). Despite the adverse financial and economic situation, SID Bank did not have any liquidity problems in 2012, as a result of the long maturities of its liability transactions and its adequate secondary liquidity.

Since December 2011 SID Bank has again been obliged to meet the reserve requirement at the central bank. The reserve requirement is 1% of the stock of deposits received and issued debt securities with an agreed maturity of up to 2 years. A general allowance of EUR 100 thousand is taken into account in the calculation.

SID Bank is deemed to have met the reserve requirement if the average balance in the settlement account at the end of the calendar day during the maintenance period is no less than the amount calculated for the aforementioned period. Under the Rules on the maintenance of the reserve requirement, the required average can be managed continually each day in the individual maintenance period, or can be met on the final day of the period by providing the requisite funds on a one-off basis. The reserve requirement calculated for the period between 12 December 2012 and 15 January 2013 stood at EUR 1,368 thousand. SID Bank ensured that it met the reserve requirement in the first half of this period.

3.3 Interest rate risk

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss, and on the economic value of assets, liabilities and off-balance-sheet items. To a great extent exposure to interest rate risk derives from interest-sensitive assets with different maturities and a different repricing period compared with interest-sensitive liabilities (the income aspect). Another part of interest rate risk consists of the sensitivity of investments to changes in interest rates (the economic aspect).

SID Bank is exposed to interest rate risk from available-for-sale securities, loans granted and the balance in the settlement account and in commercial accounts on the asset side, and from borrowings and issued debt securities on the liability side.

SID Bank primarily manages its exposure to interest rate risk by matching the remuneration of asset and liability items. The majority of assets and liabilities consist of euro-denominated instruments with an interest rate tied to a reference interest rate (the Euribor), and the bank thus remains exposed solely to the mismatches in the repricing periods and incomplete matching in the choice of interest rate (3-month or 6-month Euribor).

Breakdown of financial assets and financial liabilities by exposure to interest rate risk as at 31 December 2012

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Unremunerated items	Total
Financial assets	**285,558**	**787,572**	**2,754,331**	**178,562**	**62,458**	**4,068,481**	**683**	**4,069,165**
Balances in accounts at central bank	408	0	0	0	0	408	0	408
Financial assets held for trading	0	0	1	0	0	1	0	1
Available-for-sale financial assets	24,452	39,035	79,660	152,333	14,140	309,620	135	309,755
Loans	260,698	748,537	2,596,667	26,229	48,318	3,680,449	548	3,680,998
Loans to banks	95,909	628,981	2,269,145	17,508	19,613	3,031,156	0	3,031,156
Loans to non-banking clients	164,789	119,556	327,523	8,721	28,705	649,294	0	649,294
Other financial assets	0	0	0	0	0	0	548	548
Derivatives used for hedging	0	0	78,003	0	0	78,003	0	78,003
Financial liabilities	**424,583**	**420,757**	**1,547,344**	**1,218,354**	**121,266**	**3,732,305**	**1,215**	**3,733,520**
Financial liabilities to central bank	206,592	0	0	0	0	206,592	0	206,592
Financial liabilities held for trading	0	0	0	0	0	0	0	44
Financial liabilities measured at amortised cost	217,991	420,757	1,547,344	1,218,354	121,266	3,525,713	1,171	3,526,884
Deposits and loans from banks	217,986	420,757	1,285,876	44,301	0	1,968,920	0	1,968,920
Deposits and loans from non-banking clients	5	0	49,829	37,532	62,702	150,068	0	150,068
Debt securities	0	0	211,639	1,136,522	58,564	1,406,725	0	1,406,725
Other financial liabilities	0	0	0	0	0	0	1,171	1,171
Interest rate gap as at 31 Dec 2012	**(139,025)**	**366,815**	**1,206,987**	**(1,039,792)**	**(58,808)**	**336,176**	**(532)**	**335,645**
Financial assets as at 31 Dec 2011	302,877	660,548	2,806,926	151,986	68,439	3,990,776	20,890	4,011,666
Financial liabilities as at 31 Dec 2011	336,629	435,952	1,606,311	1,163,917	114,127	3,656,935	35,403	3,692,339
Interest rate gap as at 31 Dec 2011	**(33,752)**	**224,596**	**1,200,615**	**(1,011,931)**	**(45,688)**	**333,840**	**(14,513)**	**319,327**

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Unremunerated items	Total
Financial assets	**377,978**	**812,592**	**2,751,575**	**184,825**	**64,838**	**4,190,982**	**19,471**	**4,210,453**
Balances in accounts at central bank	408	0	0	0	0	408	1	409
Financial assets held for trading	0	0	1	0	0	1	0	1
Available-for-sale financial assets	28,018	41,218	82,167	158,596	16,520	326,518	7,337	333,854
Loans								
Loans to banks	111,236	635,643	2,273,207	17,508	19,613	3,057,207	243	3,057,451
Loans to non-banking clients	237,490	135,731	318,198	8,721	28,705	728,845	9,986	738,831
Other financial assets	0	0	0	0	0	0	1,904	1,904
Derivatives used for hedging	0	0	78,003	0	0	78,003	0	78,003
Financial liabilities	**482,163**	**460,985**	**1,554,267**	**1,218,355**	**121,266**	**3,837,036**	**3,830**	**3,840,865**
Financial liabilities to central bank	206,592	0	0	0	0	206,592	0	206,592
Financial liabilities held for trading	0	0	0	0	0	0	44	44
Financial liabilities measured at amortised cost	275,571	460,985	1,554,267	1,218,355	121,266	3,630,444	3,786	3,634,229
Deposits and loans from banks	275,566	460,985	1,292,799	44,301		2,073,651	882	2,074,533
Deposits and loans from non-banking clients	5	0	49,829	37,532	62,702	150,068	0	150,068
Debt securities	0	0	211,639	1,136,522	58,564	1,406,725	0	1,406,725
Other financial liabilities	0	0	0	0	0	0	2,904	2,904
Interest rate gap as at 31 Dec 2012	**(105,011)**	**351,608**	**1,197,308**	**(1,033,530)**	**(56,428)**	**353,946**	**15,641**	**369,587**
Financial assets as at 31 Dec 2011	400,653	689,945	2,807,916	162,530	72,720	4,133,763	40,544	4,174,307
Financial liabilities as at 31 Dec 2011	361,703	480,711	1,660,215	1,163,916	114,127	3,780,672	37,896	3,818,567
Interest rate gap as at 31 Dec 2011	**38,950**	**209,234**	**1,147,701**	**(1,001,386)**	**(41,407)**	**353,091**	**2,649**	**355,740**

Sensitivity analysis

SID Bank and the SID Bank Group conduct analysis of the sensitivity of remunerated assets and liabilities to changes in interest rates.

Analysis of the sensitivity of interest-sensitive asset and liability items is made under the assumption of a change of 100 basis points in market interest rates. The impact on net interest income in the first year of the change is calculated.

Were market interest rates to rise by 100 basis points, SID Bank's net interest income in 2013 would increase by EUR 2,411 thousand (compared with EUR 2,475 thousand in 2012). The change would be reflected in higher income in the income statement. Were market interest rates to fall by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

Were market interest rates to rise by 100 basis points, the SID Bank Group's net interest income in 2013 would increase by EUR 2,592 thousand (compared with EUR 2,803 thousand in 2012). The change would be reflected in higher income in the income statement. Were market interest rates to fall by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

3.4 Currency risk

Currency risk is the risk of a loss arising from adverse changes in exchange rates.

In the management of currency risk SID Bank determines the potential loss that would arise as a result of a change in exchange rates by means of the open foreign exchange position, which is the difference between the sums of all assets and liabilities in foreign currencies. Internal limits are placed on the open foreign exchange position, and it was minimal throughout 2012.

Transactions executed by SID Bank and the SID Bank Group in foreign currencies are not materially significant, and this currency risk is also not of material significance. Given the lack of material significance, analysis of currency sensitivity is not disclosed.

The SID Bank Group ties fiduciary cession advances to the euro, in order to neutralise as far as possible the effect of changes in exchange rates on debts expressed in euros. In insurance operations the SID Bank Group matches the currency breakdown of its assets covering technical provisions with the currency structure of the exposure to the largest possible extent.

Breakdown of financial assets and financial liabilities by currency as at 31 December 2012

	SID Bank				SID Bank Group			
	EUR	USD	Other currencies	Total	EUR	USD	Other currencies	Total
Financial assets	**4,053,576**	**15,588**	**0**	**4,069,165**	**4,183,535**	**15,589**	**11,328**	**4,210,453**
Balances in accounts at central bank	408	0	0	408	408	0	1	409
Financial assets held for trading	1	0	0	1	1	0	0	1
Available-for-sale financial assets	304,926	4,829	0	309,755	329,025	4,829	0	333,854
Loans	3,670,238	10,759	0	3,680,998	3,776,098	10,760	11,328	3,798,186
Loans to banks	3,020,683	10,472	0	3,031,156	3,041,052	10,473	5,926	3,057,451
Loans to non-banking clients	649,006	287	0	649,294	733,268	287	5,276	738,831
Other financial assets	548	0	0	548	1,778	0	127	1,904
Derivatives used for hedging	78,003	0	0	78,003	78,003	0	0	78,003
Financial liabilities	**3,718,346**	**15,174**	**0**	**3,733,520**	**3,822,669**	**15,174**	**3,023**	**3,840,866**
Financial liabilities to central bank	206,592	0	0	206,592	206,592	0	0	206,592
Financial liabilities held for trading	44	0	0	44	44	0	0	44
Financial liabilities measured at amortised cost	3,511,710	15,174	0	3,526,884	3,616,033	15,174	3,023	3,634,230
Deposits and loans from banks	1,953,746	15,174	0	1,968,920	2,056,714	15,174	2,646	2,074,533
Deposits and loans from non-banking clients	150,068	0	0	150,068	150,068	0	0	150,068
Debt securities	1,406,725	0	0	1,406,725	1,406,725	0	0	1,406,725
Other financial liabilities	1,171	0	0	1,171	2,526	0	377	2,904
Net on-balance-sheet position as at 31 Dec 2012	**335,230**	**414**	**0**	**335,645**	**360,866**	**415**	**8,306**	**369,587**
Assumed irrevocable liabilities	**79,645**	**0**	**21,187**	**100,833**	**80,160**	**0**	**21,187**	**101,347**
Financial assets as at 31 Dec 2011	3,996,115	15,551	0	4,011,666	4,151,394	15,552	7,361	4,174,307
Financial liabilities as at 31 Dec 2011	3,676,877	15,462	0	3,692,339	3,800,215	15,462	2,892	3,818,568
Net on-balance-sheet position as at 31 Dec 2011	**319,238**	**89**	**0**	**319,327**	**351,180**	**90**	**4,470**	**355,739**
Assumed irrevocable liabilities as at 31 Dec 2011	38,022	0	11,501	49,523	39,977	0	11,501	51,478

3.5 Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people and systems or from external events, and depends on internal organisation, the management of business processes, the functioning of internal controls, the effectiveness of internal and external auditing, etc.

Operational risk factors include personnel, business processes, information technology and other infrastructure, organisational arrangements and external events.

The expansion in SID Bank's role as Slovenia's primary financial institution concerned with promotional development, its increase in turnover and the gradual increase in the complexity of its products and processes have increased operational risk. The new tasks envisaged must be followed by recruitment of the right high-quality personnel and the introduction of new information technologies to provide proper data and applications support.

The Bank uses a basic indicator approach to monitor operational risk. Management of operational risk is based on the established system of internal controls, the system of decision-making and powers, proper replacements during absences, the right training for personnel, and investment in information technology. The systemic risks entailed by information technology, which are increasing as the level of computerisation increases, have been managed by additional measures such as the business continuity plan put in place, the duplication of server infrastructure and other measures to increase information security (systems to prevent penetrations, systems for detecting penetrations, surveillance systems).

3.6 Capital management

SID Bank and the SID Bank Group must always have adequate capital at their disposal as a reserve against the various risks that they are exposed to in their operations. This is a continuous process of determining and maintaining the amount and quality of capital that is adequate, taking the risks defined in the capital management policy into account.

The calculation of the SID Bank Group's capital adequacy is based on the consolidated financial statements. Under the Regulation on the supervision of banks and savings banks on a consolidated basis, insurance corporations are not included in consolidated financial statements, and joint ventures are accounted using proportionate consolidation. SID Bank and the Prvi Faktor Group are included in consolidation on the basis of the aforementioned regulation, the latter using proportionate consolidation.

Capital for capital adequacy purposes

Capital and capital adequacy are monitored in accordance with the guidelines of the Basel Committee and EU directives, and have been incorporated into Bank of Slovenia regulations.

The Regulation on the calculation of the own funds of banks and savings banks gives detailed definitions of minimum capital and the attributes of individual capital components, ratios and constraints, the conditions for obtaining authorisation to include specific financial instruments, the method and period in which they are coordinated, and deductions in the calculation of capital.

A bank's capital is divided into three categories with regard to its attributes and the requirements: original own funds (Tier 1), additional own funds I (Tier 2) and additional own funds II. Capital is calculated as the sum of all three categories, the deductions from individual categories, the ratios between the individual categories and the purpose of the individual categories being taken into account.

SID Bank and the SID Bank Group use the standardised approach to calculate the capital requirements for credit risk, and a basic indicator approach to calculate the capital requirements for operational risks.

Investments in other credit and financial institutions are deducted from original own funds and additional own funds I (the ceiling for inclusion is 10% of nominal capital), as are participating interests in insurance corporations. This yields the regulatory capital figure, which is subsequently used to determine capital adequacy, the calculation of which is based on the inclusion of the capital requirements for credit risk and operational risk.

Capital components and capital adequacy ratio for SID Bank and the SID Bank Group

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Original own funds (Tier 1)	338,730	333,958	344,978	338,489
Share capital	300,000	300,000	300,000	300,000
(-) Own shares held in treasury	*(1,324)*	*(1,324)*	*(1,324)*	*(1,324)*
Share premium account	1,139	1,139	1,139	1,139
Profit reserves and retained earnings	39,407	34,365	46,167	40,194
Revaluation surplus (prudential filters)	0	0	0	(772)
Deductions from original own funds	(491)	(222)	(1,003)	(748)
(-) Intangible assets	*(491)*	*(222)*	*(1,003)*	*(748)*
Additional own funds I (Tier 2)	10	0	10	0
Revaluation surplus in connection with available-for-sale financial assets (shares, participating interests)	10	0	10	0
Deductions from original own funds and additional own funds I	(11,500)	(11,500)	(8,412)	(8,412)
Total capital for capital adequacy purposes	327,239	322,458	336,575	330,076
Capital requirements	183,996	179,744	194,656	191,666
Capital adequacy ratio, %	14.23	14.35	13.83	13.78

Breakdown of capital requirements by type of risk

	SID Bank				SID Bank Group			
Balance as at 31 Dec	2012	Breakdown, %	2011	Breakdown, %	2012	Breakdown, %	2011	Breakdown, %
Capital requirements								
- for credit risk	*177,381*	*96.4*	*175,152*	*97.4*	*186,745*	*95.9*	*185,791*	*96.9*
- for operational risk	*6,615*	*3.6*	*4,592*	*2.6*	*7,911*	*4.1*	*5,876*	*3.1*
Total capital requirements	183,996	100	179,744	100.0	194,656	100	191,666	100.0

Capital requirements for credit risk

	SID Bank		SID Bank Group	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Exposure class				
- Central governments or central banks	*5*	*0*	*299*	*0*
- Regional governments or local authorities	*394*	*1*	*544*	*362*
- Public sector entities	*1,044*	*1,069*	*1,048*	*1,255*
- Institutions	*120,312*	*120,988*	*121,476*	*121,946*
- Corporates	*51,567*	*51,937*	*58,297*	*60,120*
- Past-due items	*3,406*	*659*	*4,074*	*1,479*
- Regulatory high-risk items	*256*	*98*	*513*	*227*
- Covered bonds	*76*	*41*	*76*	*41*
- Exposures in the form of collective investment undertakings	*11*	*11*	*11*	*11*
- Other exposures	*310*	*348*	*409*	*351*
Capital requirements	177,381	175,152	186,745	185,791

In both of the years illustrated, SID Bank maintained its capital adequacy above the regulatory prescribed minimum (8%). In 2012 regulatory capital (capital for the purpose of the capital adequacy calculation) was increased by the net profit for the financial year and reduced by the increased stock of intangible assets as a deduction. The capital requirements for credit risk increased by 2.4%, or EUR 4,222 thousand in absolute terms. The largest increase in absolute terms was recorded by the exposure class of past-due items. The capital requirements for operational risks increased in 2012 as a result of the increase in net interest income and non-interest income in the three years prior to 2012, for which the capital requirement was calculated. Under the

Regulation on the reporting of the capital and capital requirements of banks and savings banks, there was no need to formulate capital requirements for currency risk at the end of the year.

Internal capital assessment

SID Bank annually assesses its risk profile, which comprises a documented and categorised collection of quantitative and qualitative assessments of the risks that a bank takes up within the framework of its operations and the control environment with which it manages these risks.

The risk profile represents a basis for the integral risk management process, the internal capital adequacy assessment process, the planning of internal audit procedures, and direct supervision by the Bank of Slovenia.

The risk profile is assessed for the entire SID Bank Group under the Regulation on risk management and the implementation of the internal capital adequacy assessment process for banks and savings banks and the Regulation on the supervision of banks and savings banks on a consolidated basis.

The internal capital adequacy assessment process takes account of risks included in the first pillar (credit risk, market risk, operational risk), risks under the second pillar (concentration risk, transfer risk, interest rate risk, liquidity risk, profitability risk, settlement risk, reputation risk, strategic risk, capital risk), and other elements and factors of the external environment (regulatory changes, the impact of economic cycles, stress tests).

The capital requirements for credit risk account for 75.9% of the internal capital assessment, the capital requirements for operational risk for 3.2%, and the capital requirements for strategic risk, concentration risk and external factors for 20.9%.

3.7 Fair value of financial assets and liabilities

SID Bank and the SID Bank Group determine fair value in the following order: the market value, the value calculated under a model taking account of market interest rates, and the original cost.

	SID Bank				SID Bank Group			
	31 Dec 2012		31 Dec 2011		31 Dec 2012		31 Dec 2011	
EUR thousands	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash-in-hand and balances in accounts at central bank	408	408	41,696	41,696	409	409	41,697	41,697
Financial assets held for trading	1	1	3	3	1	1	3	3
Available-for-sale financial assets	309,755	309,755	212,240	212,240	333,854	333,854	243,646	243,646
Loans	3,680,998	3,687,870	3,698,637	3,705,479	3,798,186	3,804,991	3,829,871	3,836,677
- loans to banks	*3,031,156*	*3,035,855*	*2,997,154*	3,001,924	*3,057,451*	*3,062,151*	*3,018,972*	*3,023,742*
- loans to non-banking clients	*649,294*	*651,346*	*701,410*	703,387	*738,831*	*740,815*	*810,720*	*812,650*
- other financial assets	*548*	*669*	*73*	*168*	*1,904*	*2,025*	*179*	*285*
Financial assets held for trading	78,003	78,003	58,847	58,847	78,003	78,003	58,847	58,847
TOTAL FINANCIAL ASSETS	4,069,165	4,076,037	4,011,739	4,018,581	4,210,453	4,217,258	4,174,064	4,180,859
Financial liabilities to central bank	206,592	206,592	50,014	50,014	206,592	206,592	50,014	50,014
Financial liabilities held for trading	44	44	35	35	44	44	35	35
Financial liabilities measured at amortised cost	3,526,884	3,528,093	3,642,146	3,643,718	3,634,230	3,635,368	3,768,376	3,769,900
- deposits from banks	*44,301*	*44,301*	*119,498*	119,589	*44,301*	*44,301*	*119,498*	*119,589*
- deposits from non-banking clients	*5*	*5*	*5*	5	*5*	*5*	*5*	*5*
- borrowings from banks	*1,924,619*	*1,925,632*	*1,966,530*	1,967,788	*2,030,232*	*2,031,174*	*2,091,001*	*2,092,211*
- borrowings from non-banking clients	*150,063*	*150,259*	*150,174*	150,397	*150,063*	*150,259*	*150,174*	*150,397*
- debt securities	*1,406,725*	*1,406,725*	*1,404,906*	*1,404,906*	*1,406,725*	*1,406,725*	*1,404,906*	*1,404,906*
- other financial liabilities	*1,171*	*1,171*	*1,033*	*1,033*	*2,904*	*2,904*	*2,792*	*2,792*
TOTAL FINANCIAL LIABILITIES	3,733,520	3,734,729	3,692,195	3,693,767	3,840,866	3,842,004	3,818,425	3,819,949

The financial instruments that the Group discloses in the statement of financial position at fair value are financial assets and liabilities held for trading, financial assets used for hedging and available-for-sale financial assets.

The fair values of loans and financial liabilities measured at amortised cost differ from their carrying amounts disclosed in the statement of financial position.

All the aforementioned financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument at initial recognition is usually the price of the transaction. Subsequent measurement of financial instruments takes account of the market price (purchase price or bid price) of the financial instrument.

The fair value of loans to banks, loans to non-banking clients and borrowings consists of the value of the principal as at 31 December 2012 and the interest accruing in the period.

Fair value hierarchy

	SID Bank					
	2012			2011		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets						
Derivatives	78,004	0	78,004	58,850	0	58,850
Available-for-sale financial assets	309,755	309,755	0	212,240	212,240	0
- debt securities	*309,620*	*309,620*	*0*	*212,106*	*212,106*	*0*
- equities	*135*	*135*	*0*	*134*	*134*	*0*
Financial liabilities						
Derivatives	44	0	44	35	0	35

	SID Bank Group					
	2012			2011		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets						
Derivatives	78,004	0	78,004	58,850	0	58,850
Available-for-sale financial assets	333,854	333,854	0	243,646	243,646	0
- debt securities	*326,517*	*326,517*	*0*	*233,960*	*233,960*	*0*
- equities	*7,337*	*7,337*	*0*	*9,686*	*9,686*	*0*
Financial liabilities						
Derivatives	44	0	44	35	0	35

IFRS 7 additionally requires the disclosure of fair value using a fair value hierarchy that reflects the significance of the input data used in measurements.

The fair value hierarchy at SID Bank and the SID Bank Group has the following levels:

– Level 1: quoted prices in active markets for identical assets or liabilities, comprising securities quoted on a stock exchange;

– Level 2: a value calculated using a model that takes account of market interest rates and comprises derivative contracts, where Bloomberg is the source of transaction parameters such as the yield curve;

– Level 3: a calculated value not based on market observables but on estimates drawn up using standard valuation methods such as the model of discounted future cash flows, the market method and the liquidation value method.

4. Segment reporting

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities at the SID Bank Group. The disclosure of information by operating segment takes account of supervisory approaches and the content of reports that serve the Bank's management in the governance of the SID Bank Group. Performance across the operating segments is monitored on the basis of the accounting policy as presented in point 2.2.29. The reports are compiled in accordance with the IFRS. The majority of the SID Bank Group's operations are on the domestic market, for which reason the Group does not disclose additional itemisation by geographical segments.

The SID Bank Group business activities can be divided into three operating segments:

- banking,
- credit and investment insurance, and
- factoring.

Each operating segment is organised as a legal entity in the form of an independent undertaking. Within the SID Bank Group banking services are provided by the controlling company SID Bank, credit and investment insurance is carried out at PKZ, and factoring is the domain of the Prvi Faktor Group. The individual operating segments include products and services that differ from the other operating segments in terms of risk and return. Transactions between the operating segments are executed at normal commercial terms.

Analysis by operating segment

2012	Banking	Credit and investment insurance	Factoring	Total
Interest income and similar income	154,101	867	11,768	166,736
Interest expenses and similar expenses	(93,420)	(37)	(6,205)	(99,662)
Net interest income	60,681	830	5,563	67,074
Dividend income	0	0	352	352
Income from fees and commissions	1,749	0	4,233	5,982
Expenses from fees and commissions	(706)	(13)	(614)	(1,333)
Net fee and commission income	1,043	(13)	3,619	4,649
Gains/losses realised on financial assets and liabilities not measured at fair value through profit or loss	1,689	109	0	1,798
Net gain/loss on financial assets and liabilities held for trading	(11)	0	(8)	(19)
Gains/losses on financial assets and liabilities measured at fair value through profit or loss	21,072	0	0	21,072
Changes in fair value in hedge accounting	2,648	0	0	2,648
Net foreign exchange gain/loss	(5)	(2)	843	836
Net gains/losses on derecognition of assets other than non-current assets held for sale	(1)	0	(41)	(42)
Other net operating gains/losses	2,126	4,835	(269)	6,692
Administrative costs	(7,585)	(3,382)	(3,149)	(14,116)
Amortisation and depreciation	(575)	(323)	(111)	(1,009)
Provisioning	(10,095)	1,374	0	(8,721)
Impairments	(69,203)	(259)	(2,694)	(72,156)
Profit from ordinary operations	**1,784**	**3,169**	**4,105**	**9,058**
Corporate income tax on ordinary operations	(588)	(551)	(876)	(2,015)
Deferred taxes	(233)	(23)	36	(220)
Net profit for the financial year	**963**	**2,595**	**3,265**	**6,823**
TOTAL ASSETS	**4,035,896**	**65,398**	**157,519**	**4,258,813**
- assets of operating segments	4,035,477	65,398	157,519	4,258,394
- long-term interests in subsidiaries, associates and joint ventures	419	0	0	419
LIABILITIES (other than equity) BY SEGMENT	3,748,438	41,330	105,869	3,895,637
Increase in property, plant and equipment and intangible assets	40	1,007	(45)	1,002

The unconsolidated net profit in the operating segment of banking amounted to EUR 6,454 thousand without the effect of consolidation bookings. After income, expenses and costs between operating segments, dividends received and income from impairments in the total amount of EUR 4,603 thousand had been excluded, the consolidated net profit in the operating segment of banking amounted to EUR 1,851 thousand.

The unconsolidated net profit in the operating segment of credit and investment insurance amounted to EUR 5,607 thousand. After income, expenses and costs between operating segments in the total amount of EUR 34 thousand had been excluded, the consolidated net profit in the operating segment of credit and investment insurance amounted to EUR 5,641 thousand.

The operating segment of factoring disclosed unconsolidated net profit of EUR 930 thousand. After income, expenses and costs between operating segments in the total amount of EUR 2,641 thousand had been excluded, the consolidated net profit in the operating segment of factoring amounted to EUR 3,571 thousand.

2011	Banking	Credit and investment insurance	Factoring	Total
Interest income and similar income	154,927	898	14,343	170,168
Interest expenses and similar expenses	(103,000)	(36)	(6,897)	(109,933)
Net interest income	51,927	862	7,446	60,235
Income from fees and commissions	1,903	0	4,146	6,049
Expenses from fees and commissions	(894)	(16)	(852)	(1,762)
Net fee and commission income	1,009	(16)	3,294	4,287
Gains/losses realised on financial assets and liabilities not measured at fair value through profit or loss	(1,598)	0	0	(1,598)
Net gain/loss on financial assets and liabilities held for trading	(3)	0	(17)	(20)
Gains/losses on financial assets and liabilities measured at fair value through profit or loss	31	0	0	31
Changes in fair value in hedge accounting	(980)	0	0	(980)
Net foreign exchange gain/loss	6	(1)	1,208	1,213
Net gains/losses on derecognition of assets other than non-current assets held for sale	(4)	0	(18)	(22)
Other net operating gains/losses	2,586	7,169	(195)	9,560
Administrative costs	(7,017)	(3,154)	(3,087)	(13,258)
Amortisation and depreciation	(588)	(198)	(144)	(930)
Provisioning	(1,862)	2,328	0	466
Impairments	(40,622)	51	(4,242)	(44,813)
Profit from ordinary operations	**2,885**	**7,041**	**4,245**	**14,171**
Corporate income tax on ordinary operations	(1,089)	(1,312)	(822)	(3,223)
Deferred taxes	55	(88)	148	115
Net profit for the financial year	**1,851**	**5,641**	**3,571**	**11,063**
TOTAL ASSETS	**3,981,940**	**67,911**	**169,242**	**4,219,093**
- assets of operating segments	3,981,521	67,911	169,242	4,218,674
- long-term interests in subsidiaries, associates and joint ventures	419	0	0	419
LIABILITIES (other than equity) BY SEGMENT	3,697,207	45,044	124,403	3,866,654
Increase in property, plant and equipment and intangible assets	321	3,221	139	3,681

5. Other disclosures

The disclosures under the Regulation on disclosures by banks and savings banks (hereinafter: the Regulation on disclosures) that are not included in the previous sections of the annual report are presented below.

SID Bank has the position of an EU parent bank under capital legislation, for which reason it is obliged to publish disclosures under the aforementioned regulation on the basis of the consolidated financial position.

SID Bank and the Prvi Faktor Group are included in consolidation under the Regulation on the supervision of banks and savings banks on a consolidated basis (banking consolidation), the latter using proportionate consolidation (50%). The Pro Kolekt Group and the CMSR have been excluded from consolidation, because their balance sheet totals amount to less than 1% of SID Bank's balance sheet total, and their revenues to less than 1% of SID Bank's revenue. The investment in the Pro Kolekt Group is also not classed as a deduction against the capital of SID Bank as a banking group. Under the IFRS, the SID Bank Group's consolidated financial statements include, in addition to SID Bank, the insurance corporation PKZ under the full consolidation method, and the Prvi Faktor Group under the proportionate consolidation method. Banking consolidation and accounting consolidation therefore differ in that the latter includes PKZ.

In the SID Bank banking group there are no impediments to the transfer of capital or to the settlement of liabilities between the parent undertaking and its subsidiaries.

All the SID Bank Group subsidiaries that are not included in consolidation under the Regulation on the supervision of banks and savings banks on a consolidated basis meet the required minimum capital. The overall shortfall in capital is zero.

5.1 Total exposure amount minus impairments and provisions excluding credit protection effects, and average exposure amount in reporting period broken down by exposure class

(Article 15c of the Regulation on disclosures)

Exposure class	Balance as at 31 Dec 2012	Average 2012	Balance as at 31 Dec 2011	Average 2011
Central governments and central banks	203,993	192,126	170,399	87,631
Regional governments or local authorities	11,760	4,348	3,344	2,792
Public sector entities	41,138	37,508	33,597	32,728
Multilateral development banks	12,516	9,859	8,286	6,418
International organisations	7,642	7,504	3,214	803
Institutions	3,188,529	3,268,020	3,197,318	3,290,281
Corporates	734,732	750,628	801,215	833,254
Past-due items	48,622	54,286	15,721	18,157
Regulatory high-risk exposures	5,949	5,469	2,254	4,343
Covered bonds	4,726	4,307	2,571	643
Investments in collective investment undertakings	135	136	134	133
Other exposures	5,111	4,845	4,386	4,779
Total	4,264,853	4,339,036	4,242,441	4,281,961

5.2 Breakdown of exposures by major geographical region itemised into major exposure classes

(Article 15d of the Regulation on disclosures)

2012 Exposure class	Slovenia	Other EU members	South-eastern Europe (excluding EU members)	Other countries	Total
Central governments and central banks	147,499	52,831	3,664	0	203,993
Regional governments or local authorities	10,101	11	1,648	0	11,760
Public sector entities	29,749	11,351	38	0	41,138
Multilateral development banks	0	12,516	0	0	12,516
International organisations	0	7,642	0	0	7,642
Institutions	2,916,825	235,388	28,335	7,981	3,188,530
Corporates	527,482	19,726	176,858	10,666	734,732
Past-due items	43,857	29	4,736	0	48,622
Regulatory high-risk exposures	3,864	0	2,085	0	5,950
Covered bonds	0	4,726	0	0	4,726
Investments in collective investment undertakings	135	0	0	0	135
Other exposures	5,109	0	2	0	5,111
Total	3,684,621	344,220	217,364	18,648	4,264,853

2011 Exposure class	Slovenia	Other EU members	South-eastern Europe (excluding EU members)	Other countries	Total
Central governments and central banks	141,633	27,124	1,642	0	170,399
Regional governments or local authorities	1,264	18	2,061	0	3,344
Public sector entities	31,516	0	2,081	0	33,597
Multilateral development banks	0	8,286	0	0	8,286
International organisations	0	3,214	0	0	3,214
Institutions	2,986,515	168,262	31,514	11,028	3,197,318
Corporates	569,803	21,294	200,634	9,484	801,215
Past-due items	9,128	90	6,504	0	15,721
Regulatory high-risk exposures	1,371	0	853	30	2,254
Covered bonds	0	2,571	0	0	2,571
Investments in collective investment undertakings	134	0	0	0	134
Other exposures	4,356	0	30	0	4,386
Total	3,745,719	230,859	245,320	20,543	4,242,441

5.3 Breakdown of exposures by economic sector or type of client itemised into major exposure classes

(Article 15e of the Regulation on disclosures)

2012 Exposure class	Financial and insurance activities	Manufacturing	Public administration and defence; compulsory social security	Wholesale and retail trade; repair of motor vehicles	Transportation and storage	Other	Total
Central governments and central banks	408	0	257,159	0	0	585	258,151
Regional governments or local authorities	0	0	10,908	0	0	852	11,760
Public sector entities	0	0	26,112	0	0	11,411	37,523
Multilateral development banks	12,516	0	0	0	0	0	12,516
International organisations	0	0	0	0	0	7,642	7,642
Institutions	3,156,373	0	0	0	0	3	3,156,376
Corporates	88,608	292,736	4	170,668	50,043	114,460	716,520
Past-due items	0	31,370	643	1,824	740	13,870	48,446
Regulatory high-risk exposures	245	567	0	1,233	0	3,902	5,947
Covered bonds	4,726	0	0	0	0	0	4,726
Investments in collective investment undertakings	135	0	0	0	0	0	135
Other exposures	208	0	0	0	0	4,904	5,111
Total	3,263,218	324,673	294,826	173,725	50,783	157,628	4,264,853

2011 Exposure class	Financial and insurance activities	Manufacturing	Public administration and defence; compulsory social security	Wholesale and retail trade; repair of motor vehicles	Transportation and storage	Other	Total
Central governments and central banks	41,696	0	128,556	0	0	147	170,399
Regional governments or local authorities	18	0	3,325	0	0	0	3,344
Public sector entities	4,526	0	26,728	0	0	2,343	33,597
Multilateral development banks	8,286	0	0	0	0	0	8,286
International organisations	0	0	0	0	0	3,214	3,214
Institutions	3,197,318	0	0	0	0	0	3,197,318
Corporates	109,031	309,866	20	188,628	55,836	137,834	801,215
Past-due items	3,390	3,404	307	3,332	630	4,659	15,721
Regulatory high-risk exposures	30	1,283	0	94	14	833	2,254
Covered bonds	2,571	0	0	0	0	0	2,571
Investments in collective investment undertakings	134	0	0	0	0	0	134
Other exposures	236	0	0	4	0	4,146	4,386
Total	3,367,238	314,552	158,936	192,058	56,480	153,177	4,242,441

5.4 Itemisation of all exposure classes in terms of residual maturity of up to 1 year and more than 1 year

(Article 15f of the Regulation on disclosures)

	2012		2011	
Exposure class	Up to 1 year	More than 1 year	Up to 1 year	More than 1 year
Central governments and central banks	89,312	114,690	72,751	97,653
Regional governments or local authorities	1,907	10,301	3,331	18
Public sector entities	64	42,250	2,361	32,443
Multilateral development banks	1,529	10,986	0	8,286
International organisations	0	7,642	0	3,214
Institutions	443,173	2,782,670	309,011	2,900,878
Corporates	169,992	644,945	204,977	681,529
Past-due items	27,438	79,572	21,013	8,094
Regulatory high-risk exposures	37,618	5,573	30,155	81
Covered bonds	2,028	2,698	0	2,571
Investments in collective investment undertakings	135	0	134	0
Other exposures	2	5,109	36	4,351
Total	773,198	3,706,436	643,768	3,739,117

5.5 Past-due exposures, impaired past-due exposures and value adjustments for impairments and provisioning for major economic sectors

(Article 15g of the Regulation on disclosures)

2012 Sector	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Financial and insurance activities	10,783	10,958	52,952
Manufacturing	72,638	73,979	83,617
Public administration and defence; compulsory social security	742	739	1,727
Wholesale and retail trade; repair of motor vehicles	9,467	9,665	15,825
Transportation and storage	1,650	1,650	13,234
Other	54,947	56,201	47,426
Total	150,227	153,192	214,780

2011 Sector	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Financial and insurance activities	508	508	22,249
Manufacturing	69,259	69,255	34,975
Public administration and defence; compulsory social security	387	387	1,291
Wholesale and retail trade; repair of motor vehicles	10,064	10,053	18,299
Transportation and storage	1,425	1,424	18,256
Other	51,218	51,204	45,375
Total	132,861	132,832	140,444

5.6 Past-due exposures, impaired past-due exposures and value adjustments for impairments and provisioning for major geographical regions

(Article 15h of the Regulation on disclosures)

2012 Region	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Slovenia	130,287	133,264	190,905
Other EU members	119	119	2,015
South-eastern Europe (excluding EU members)	19,820	19,810	21,823
Other countries	0	0	37
Total	150,227	153,192	214,780

2011 Region	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Slovenia	112,505	112,497	114,382
Other EU members	236	235	1,075
South-eastern Europe (excluding EU members)	19,612	19,592	24,699
Other countries	508	508	288
Total	132,861	132,832	140,444

5.7 Illustration of change in impairments and change in provisions by type of assets

(Article 15i of the Regulation on disclosures)

Change in impairments

	2012			2011		
	Impairments of loans to banks	Impairments of loans to non-banking clients	Total impairments	Impairments of loans to banks	Impairments of loans to non-banking clients	Total impairments
Balance as at 1 Jan	12,475	119,655	132,130	3,619	84,110	87,729
Creation of impairments	43,515	63,696	107,211	11,620	58,669	70,289
Reversal of impairments	(18,816)	(23,044)	(41,860)	(2,764)	(23,125)	(25,889)
Balance as at 31 Dec	37,174	160,307	197,480	12,475	119,655	132,130

Change in provisions

	2012	2011
	Provisions for off-balance-sheet liabilities	Provisions for off-balance-sheet liabilities
Balance as at 1 Jan	4,408	2,577
Creation of provisions	18,352	4,299
Reversal of provisions	(8,274)	(2,468)
Balance as at 31 Dec	14,486	4,408

Change in impairments and provisions

	2012			2011		
	Impairments	Provisions	Total	Impairments	Provisions	Total
Balance as at 1 Jan	132,130	4,408	136,538	87,729	2,577	90,306
Increase	107,211	18,352	125,563	70,289	4,299	74,588
Decrease	(41,860)	(8,274)	(50,134)	(25,889)	(2,468)	(28,357)
Balance as at 31 Dec	197,480	14,486	211,966	132,130	4,408	136,538

5.8 Additional disclosures by bank using standardised approach

(Article 16 of the Regulation on disclosures)

Exposure values and exposure values including credit protection effects broken down by credit quality step

	2012		2011	
	Net exposure value	Exposure values including credit protection effects	Net exposure value	Exposure values including credit protection effects
Credit quality step 0	3,982,327	3,996,615	3,968,632	4,014,820
Credit quality step 2	0	0	21	21
Credit quality step 3	5,349	480	7,791	842
Credit quality step 4	3,046	194	197	197
Credit quality step 5	103,439	101,159	120,683	118,537
Credit quality step 6	66,521	64,368	79,482	67,509
Credit quality step 7	39,629	37,672	40,568	15,448
Total	4,200,310	4,200,488	4,217,374	4,217,374

The above table includes the following exposure classes: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organisations, institutions and corporates.

5.9 Investments in equities not included in trading book

(Article 21 of the Regulation on disclosures)

	31 Dec 2012	31 Dec 2011
Carrying amount	7,336	9,484
Revaluation surplus	12	(772)

Equities in the amount of EUR 7,201 thousand were acquired from the redemption of receivables. All these securities are quoted on a stock exchange. They are classed as available-for-sale financial assets. They are disclosed at fair value in the accounting records, which is equal to the quoted price of the security on the stock exchange. The remaining equities in the amount of EUR 135 thousand have also been classed as available-for-sale financial assets and disclosed at fair value in the accounting records. These securities are not quoted on a stock exchange, and have been earmarked for the management of current liquidity.

The bank created EUR 2,031 thousand in impairments in 2012 for investments in equities.

The SID Bank banking group did not realise any gains or losses from the sale of investments in equities in 2012.

The SID Bank banking group includes 80% of its unrealised gains on equities, which amounted to EUR 10 thousand as at 31 December 2012, in its additional own funds.

5.10 Significant business relationships

(Article 23c of the Regulation on disclosures)

Name of person	Office/position	SID's business relationship with person or family member	Name of family member	Contractual partner	Legal basis	Subject of contract	Contractual value, EUR	Payment terms
Aleš Berk Skok	member of supervisory board	family member	Meta Berk Skok	Triglav zdravstvena zavarovalnica	contract of 6 March 2006	top-up health insurance	5,169	15 days
Samo Hribar Milič	*member of supervisory board*	*member of supervisory board*		*Chamber of Commerce and Industry of Slovenia*	*CCIS general meeting resolution of 13 December 2011*	*membership fee of CCIS*	*2,040*	*30 days*
Samo Hribar Milič	*member of supervisory board*	*member of supervisory board*		*Chamber of Commerce and Industry of Slovenia*	*contract of 20 February 2012*	*sponsorship of event CCIS prizes*	*4,800*	*15 days*
Samo Hribar Milič	*member of supervisory board*	*member of supervisory board*		*Chamber of Commerce and Industry of Slovenia*	*order of 23 April 2012*	*literature*	*174*	*8 days*
Chamber of Commerce and Industry of Slovenia, total							7,014	

5.11 Credit protection

(Article 25 of the Regulation on disclosures)

The types of credit protection used by SID Bank are defined in the rulebook on credit protection for insurance transactions. The rulebook defines the general categories and principles of credit protection, the criteria for individual types of credit protection, and the operational procedures for establishing, recording, monitoring/valuing and exercising credit protection. The rulebook also sets out the rules for valuing individual types of credit protection, and the procedures involving assets serving as collateral.

The SID Bank banking group classes the following as eligible providers of unfunded credit protection: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organisations, and legal entities with a high credit rating (credit quality step of at least 2 under the ECAI methodology). The SID Bank banking group does not use credit derivatives to mitigate credit risk.

Assets pledged as collateral are valued at market value at the SID Bank banking group. Assets quoted on a stock exchange are value at the current price. Assets not quoted on a stock exchange are valued on the basis of comparable transactions. Real estate is valued by an independent certified appraiser, the international valuation standards applying. Market values and mortgage lending values are drawn up for real estate. A transaction price obtained in an arm's length transaction no more than one year in the past may also be used.

Throughout the repayment term of an investment the SID Bank banking group monitors the credit rating of the debt and the coverage of the investment by collateral. Should the collateral value decline, the SID Bank banking group acts to establish additional collateral as appropriate.

The amount of indirect credit risk and market risk exposure deriving from credit protection received, together with the actual exposure to the individual client or group of connected clients, may not reach or exceed 10% of the stock of SID Bank's funding. The SID Bank banking group draws up a report on indirect credit risk exposure every three months.

The providers of personal guarantees of greatest significance to the SID Bank banking group are banks, insurance corporations, corporates with a high credit rating (joint surety) and private individuals (creditworthy joint sureties).

In the breakdown of credit protection the largest proportion is that accounted for by commercial real estate collateral, followed by other guarantees of corporates with no rating or a rating of less than A-, fiduciary cession, corporate guarantees with no rating, guarantees of A-rated corporates, collateral in the form of participating interests, the SID Bank insurance policy for the account of the Republic of Slovenia, fiduciary transfer of title to real estate, collateral in the form of receivables, bills of exchange, and other credit protection.

Total exposure value covered by personal guarantees or credit derivatives by exposure class

	2012		2011	
Exposure class	Amount	Breakdown, %	Amount	Breakdown, %
Central governments and central banks	0	0.0	0	0.0
Regional governments or local authorities	0	0.0	0	0.0
Public sector entities	3,614	6.8	4,520	5.2
Multilateral development banks	0	0.0	0	0.0
International organisations	0	0.0	0	0.0
Institutions	31,878	59.9	42,397	48.7
Corporates	17,546	33.0	40,143	46.1
Past-due items	167	0.3	0	0.0
Regulatory high-risk exposures	0	0.0	0	0.0
Covered bonds	0	0.0	0	0.0
Investments in collective investment undertakings	0	0.0	0	0.0
Other exposures	0	0.0	0	0.0
Total	53,205	100.0	87,060	100.0

The above table takes account solely of credit protection that the bank takes into account in the reduction of the capital requirements for credit risk.