ANNUAL REPORT SID BANK

2020

SID Banka

Business name:	**SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana**
Abbreviated business name:	SID banka d.d., Ljubljana
Registered office:	Ulica Josipine Turnograjske 6, 1000 Ljubljana
Registration number:	5665493
Tax number:	82155135
VAT ID number:	SI82155135
Settlement account:	0100 0000 3800 058
IBAN:	SI056 0100 0000 3800 058
SWIFT:	SIDRSI22
LEI:	549300BZ3GKOJ13V6F87
Website:	www.sid.si
E-mail:	info@sid.si
Tel.:	+386 (1) 200 75 00

Major financial data and performance indicators

Major financial data[1]

EUR thousand	SID Bank 2020	2019	2018
Statement of financial position			
Total assets	2,907,358	2,406,164	2,318,834
Total deposits by the non-banking sector measured at amortised cost	832,377	827,545	548,452
Total loans to the non-banking sector	1,091,560	816,550	706,787
Total equity	476,107	463,860	422,051
Allowances and provisions for credit losses	91,950	66,472	80,917
Off-balance sheet items	460,640	274,689	360,760
Income statement			
Net interest	23,193	23,932	22,986
Net non-interest income	35,702	41,793	7,969
Labour costs, general and administrative costs	(17,342)	(15,831)	(13,270)
Depreciation/amortisation	(970)	(914)	(881)
Impairments and provisioning (credit losses)	(29,498)	(11,603)	853
Pre-tax profit from ordinary and discontinued operations	10,462	37,238	17,519
Corporate income tax on profit from ordinary and discontinued operations	(1,972)	(5,198)	(3,205)
Net profit for financial year	8,490	32,040	14,314
Statement of other comprehensive income			
Other comprehensive income before tax	4,639	11,829	(12,735)
Corporate income tax on other comprehensive income	(882)	(2,061)	2,418
Number of employees as at 31 December	223	201	185
Shares			
Number of shareholders	1	1	1
Number of shares	3,121,741	3,121,741	3,121,741
Nominal value of one share or corresponding amount of share capital of one no-par-value share	96.10	96.10	96.10
Book value of one share	153.42	149.47	136.00
Long-term credit rating as at 31 December			
Standard & Poor's	AA–	AA–	A+

[1] Prescribed data and indicators are calculated in accordance with the Guidelines for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks, which were prescribed by the Bank of Slovenia on the basis of the Regulation on the books of account and annual reports of banks and savings banks (Official Gazette of the Republic of Slovenia, Nos. 69/17, 73/19 and 164/20).

Selected indicators

(in %)	SID Bank 2020	2019	2018
Shareholder equity			
Common equity Tier 1 capital ratio	29.1	34.0	34.2
Tier 1 capital ratio	29.1	34.0	34.2
Overall capital ratio	29.1	34.0	34.2
Leverage ratio	14.7	16.5	16.3
Quality of assets in statement of financial position and commitments given			
Non-performing (on-balance-sheet and off-balance-sheet) exposures / classified on-balance-sheet and off-balance-sheet exposures	2.2	2.5	3.7
Non-performing loans and other financial assets / classified loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	3.6	4.0	6.1
Non-performing loans and other financial assets / classified loans and other financial assets (including balances on accounts at the central bank and demand deposits at banks)	3.4	3.8	5.6
Allowances for credit losses / non-performing loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	53.8	60.3	66.5
Allowances for credit losses / non-performing loans and other financial assets (including balances on accounts at the central bank and demand deposits at banks)	53.8	60.3	66.5
Collateral received / non-performing loans and other financial assets (excluding balances on accounts at the central bank and demand deposits at banks)	15.5	33.3	28.8
Profitability			
Interest margin	0.9	1.0	1.0
Financial intermediation margin	2.2	2.8	1.3
Return on assets (ROA) after tax	0.3	1.4	0.6
Return on equity (ROE) before tax	2.2	8.3	4.2
Return on equity (ROE) after tax	1.8	7.2	3.4
Operating costs			
Operating costs / average assets	0.7	0.7	0.6
Operating costs / net income	31.1	25.2	45.7

Liquidity in 2020	January–March	April–June	July–September	October–December
Liquidity coverage ratio (%)	1502	1735	1933	2706
Liquidity buffer, in EUR thousand	260,403	277,670	345,642	396,703
Net liquidity outflows, in EUR thousand	25,111	19,994	19,616	17,020

List of abbreviations and terms

AJPES	Agencija Republike Slovenije za javnopravne evidence in storitve (Agency of the Republic of Slovenia for Public Legal Records and Related Services)
AOP	Annual Operational Plan
BGN	Bloomberg Generic Price
CET1	Common Equity Tier 1 Capital
CMSR	Centre for International Cooperation and Development
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECL	Expected Credit Loss
EIAH	European Investment Advisory Hub
EIF	European Investment Fund
ECP	EU Cohesion Policy
ESMA	European Securities and Markets Authority
EU	European Union
EWS	Early Warning System
FURS	Finančna uprava Republike Slovenije (Financial Administration of the Republic of Slovenia)
FTE	Full-time equivalent
GBER	General Block Exemption Regulation
GDP	Gross Domestic Product
GURS	Geodetska uprava Republike Slovenije (Surveying and Mapping Authority of the Republic of Slovenia)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards as adopted by the EU
ILAAP	Internal Liquidity Adequacy Assessment Process
IT	Information Technology
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MEDT	Ministry of Economic Development and Technology
N/A	Not applicable
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
O-SII	Other systemically important institutions
POCI	Purchased or Originated Credit-Impaired Assets
PD	Probability of Default
RDI	Research, development and innovation
ROA	Return on assets
ROE	Return on equity
SEGIP	Slovenian Equity Growth Investment Programme
SMEs	Small and Medium Sized Enterprises
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
SSH	Slovenian Sovereign Holding
TLTRO	Targeted Longer-Term Refinancing Operations
ZBan-2	Banking Act
ZGD-1	Companies Act
ZDLGPE	Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic
ZIUOPDVE	Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of the COVID-19 Epidemic
ZIUOPOK	Emergency Deferral of Borrowers’ Liabilities Act
ZIUZEOP	Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy
ZPPOGD	Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities
ZSIRB	Slovene Export and Development Bank Act
ZZFMGP	Insurance and Financing of International Commercial Transactions Act

Business Report

Financial Report

BUSINESS REPORT

A word from the President of the Management Board

Dear Stakeholders,

The year 2020 was one of the most important and difficult years in the history of SID Bank, as the continuing COVID-19 crisis remains one of the greatest challenges for Slovenia, Europe and the world as a whole. This is true both in terms of health (100 million infections) and the economy (a drop in global GDP of 3.3%), and also in terms of social changes that have presented us with new issues and the realisation of how vulnerable we are, and have led to uncertainty about what we do and how we live.

SID Bank implemented robust intervention and counter-cyclical measures, and thus helped mitigate the consequences of the COVID-19 crisis for the Slovenian economy and others. By changing our focus from development to the addressing of market and cyclical gaps through intervention and counter-cyclical measures, we increased the scope of operations significantly. The size of the credit portfolio reached EUR 1.8 billion. The number of customers was up by 21%, with new customers accounting for 30% of all customers. We approved 3,979 reinsurance limits for short- and medium-term nonmarketable insurance in the total amount of EUR 1.8 billion. We developed and implemented two guarantee schemes with a potential size of EUR 2.2 billion in the name and on behalf of the Republic of Slovenia.

In March we began implementing liquidity adjustments to existing financing and insurance programmes, and continued with rapid-response financing programmes in the form of financial engineering in the most critical sectors (e.g. tourism and logistics), together with the relevant ministries, and continued with new emergency insurance products. We responded daily to the demands of companies and other entities, and conducted more than 3,500 interviews regarding financing and insurance. More than 60% of those companies were micro and small enterprises without liquidity reserves that actively sought out such forms of financing. They were followed by medium-sized enterprises, sole traders and cooperatives, as well as large enterprises due to the significant increase in market gaps. Due to the nature of the crisis, we also established special lines to finance the purchase of protective equipment and to finance healthcare institutions. We also provided financial services for the purchase of equipment when the situation was most critical.

As has been the case in the past, the COVID-19 crisis has shown that SID Bank, as a national development and promotional institution for the Slovenian government and particularly the Slovenian economy, is one of the most important levers for counter-cyclical functioning during the economic crisis and current pandemic.

The macroeconomic conditions were adverse, with part of the economy shut down, although all of this was successfully countered by numerous government measures. At just 5.5%, the Slovenian economy recorded a relatively low drop in GDP compared with other European countries. The same applies to the surveyed unemployment rate, which was 5.1%, while there was a significantly sharper drop in exports (8.7%) and domestic consumption (6.5%). Following a surge in the final quarter, gross investment was down by 5.8% in year-on-year terms. As expected, government consumption was up by 1.8%, while a general government deficit was 8.4% of GDP. In such a small economy, the lockdown was felt very quickly in the service sectors (for example, the number of arrivals by foreign visitors was down by around 75%), in particular at small and medium-sized enterprises and in craft industries, and in other specific forms. Deflation was recorded in the amount of 1.1%, while there was an extremely high surplus of liquidity, and a sharp increase in savings and deposits by the non-banking sector at banks. The proportion of the banks' liabilities accounted for by the latter rose to 76.8% on average, while the loan-to-deposit ratio at the banks fell below 70%. For this reason, lending to the real economy was minimal.

All of this affected our operations. We therefore revised our original plan for 2020 immediately at the beginning of the year, as we expected the increased realisation of risks during the year following the initial full lockdown of the economy. Those risks did not materialise or were delayed due to successful fiscal and monetary measures. For this reason, revised plans were not fully achieved.

Despite events in connection with the COVID-19 crisis and the economic situation, SID Bank performed well, primarily because we approved the financing and insurance requests of the large majority of companies that met the conditions of the new products and financing and insurance programmes that we developed and implemented for those purposes.

The external environment also gave a positive assessment of our operations. This applies to the corporate sector, which was in need of our products, the capital markets where we secured funding and rating agencies, as SID Bank's long-term credit rating remained sound and stable (AA–).

Due to crisis intervention measures, loans to the non-banking sector, mostly direct loans to corporates, exceeded EUR 1 billion for the first time in the Bank's history, representing an increase of 33.7%. The proportion of the credit portfolio accounted for by the aforementioned loans rose by 14.5% to reach 62%. New loans in the total amount of EUR 387 million were concluded with non-banking customers.

In the context of extremely high demand for emergency liquidity financing, we remained particularly focused on the development-financing of investments particularly during the second half of the year. In the scope of financial engineering and funds, eight programmes were available for the direct financing of companies. Those programmes were developed in accordance with the EU's temporary framework of state aid to support the economy and were intended for the financing of investments and current operations, research, development and innovation, as well as the financing of export transactions, municipalities and regional projects (the infrastructure, urban development, etc.) and investments in energy efficiency. Special emphasis was also placed on the development of programmes and products, and on project financing and the infrastructure, in particular to ensure the financing of the circular, green and digital transition, which is an EU policy. Here, mention should be made of our green bond issue, through which SID Bank has committed to the public disclosure of environmental impacts. It is evident from the report on environmental impacts that SID Bank's annual investment of one million euros in green bonds has resulted in the reduction of greenhouse gas emissions by 615 tonnes of CO_2, in addition to other positive environmental effects. In this way, we encourage companies to plan their operations, in particular their investments, according to the same principles, which is a precondition for a successful economic recovery following the pandemic. For this reason, we began preparations during the second half of the year for participation in the national recovery and resilience plan in the scope of the Recovery and Resilience Facility (RRF), where our aim is to be a significant player in implementing the loan segment of the programme's financial instruments.

The banking sector, which has not been affected as directly as it was in the previous crisis because it entered the current crisis with a high level of liquidity and capital adequacy, quickly tightened credit standards and thus reduced its financing of the economy, in particular for certain service sectors. This resulted in a 1.4% decrease in corporate lending, while household lending was up. Most of that increase, however, was in the form of housing loans, as consumer loans were down by 7.8%. Total growth in loans to the non-banking sector was thus a modest 0.2%. Here it bears mentioning that the drop in lending to the corporate sector would have been significantly higher without the positive role played by SID Bank, which mitigated that fall by close to 3 percentage points. Our high lending activity was reflected in the high stock of newly concluded agreements, in particular with companies, but also with financial institutions in the total amount of EUR 501 million. In that context, we had a high stock of approved but undrawn loans that were raised by companies in the event of an even more severe crisis. That stock was thus even more notable at commercial banks, whose liquidity was that much higher as a result.

As a result, our indirect financing via banks was down during this crisis year in contrast to 2019. Loans to banks (excluding deposits) amounted to EUR 680 million, a decrease of 7% relative to the previous year, while the proportion of the Bank's total portfolio accounted for by those loans was 38%. Despite that fall, we developed certain new programmes for the more rapid emergency placement of loans. A total of 156 final beneficiaries received financing from SID Bank in the total amount of EUR 61 million via Slovenian banks in 2020, while an additional 960 final beneficiaries received a total of EUR 52 million from financial intermediaries who participate in both funds of funds.

Despite the adverse crisis conditions, we continued last year with the development of indirect emergency financing from European funds in the form of financial instruments in the scope of two European cohesion funds (the FI 2014–2020 Fund of Funds and COVID-19 Fund of Funds), which are managed by SID Bank. These provide loans to companies (start-ups, sole traders, social enterprises, small and large enterprises), municipalities and cooperatives via participating banks (NLB, Gorenjska banka, Delavska hranilnica, Primorska hranilnica Vipava and Sberbank, and the Slovenian Enterprise Fund) for the financing of investments in RDI, projects aimed at the comprehensive energy renovation of public-sector buildings and urban development projects, and for the quasi-equity financing of companies via the Slovenian Enterprise Fund, which also offers low-value (micro) loans. Banks also used portfolio guarantees with a first-order, free and unconditional guarantee from SID Bank.

With European cohesion funds via two funds of funds, we have taken an important step in the transition from grants to refundable forms of funding through the use of financial instruments. Financial instruments in the scope of both funds of funds were very important last year to mitigate the negative effects of the crisis at micro and small enterprises. A total of 3,774 loans in the total amount of EUR 162 million were granted to companies and municipalities via all financial intermediaries, including SID Bank, by the end of 2020.

In the scope of the Slovene Equity Growth Investment Programme (SEGIP), SID Bank also offers equity financing in the amount of EUR 100 million, together with the European Investment Fund. Selected through a public tender to manage EUR 50 million of the aforementioned amount were the Slovenian fund managers ALFI PE d.o.o. (ALFI PE SIS) and Generali Investments d.o.o. (Generali Growth SIS). In addition to EUR 25 million in funds from the SEGIP, the ALFI PE SIS secured EUR 45 million from private investors, while in addition to EUR 25 million, Generali Growth SIS secured EUR 40 million from private investors, thereby exceeding SID Bank's expectations at the time the SEGIP was established.

In order to ensure sufficient funding to implement the aforementioned corporate financing programme, the Bank increased its liquid funds by 31.7% through issue of a COVID-19 bond in the amount of EUR 350 million on the international capital markets, and through the use of the ECB's TLTROs, dedicated funds from the European Investment Bank, the Council of Europe Development Bank and Kreditanstalt für Wiederaufbau, and funding from a previously issued green bond. SID bank's total assets were thus up by 20.8% last year to stand at EUR 2.9 billion, representing 6.5% of the Slovenian banking system's total assets, which were up by 8.3%.

Since the outbreak of the COVID-19 crisis, SID Bank has actively participated in the formulation of the most appropriate economic policy measures in response to that crisis. The government adopted two key measures in that respect that concern banks: (i) moratoria for borrowers who are unable to repay loans due to the pandemic and a government guarantee provided to the banks for the deferral of payments to banks; and (ii) a liquidity guarantee scheme. Under the first measure, the Republic of Slovenia authorised SID Bank to carry out, in its name and on its behalf, all transactions in the scope of the guarantee scheme set out in the ZIUZEOP in the total amount of EUR 200 million, based on which banks and savings banks may receive government guarantees for moratoria on loans. Those transactions relate to the provision and liquidation of Slovenian government guarantees. This significantly eased the pressure on liquidity and facilitated the restructuring of debt repayments for a year and delayed the effect of the crisis to a future period, as close to 10 thousand deferrals had been requested by the end of 2020 (for individuals and legal entities) in the total amount of EUR 172 million (of which EUR 147 million in deferrals for legal entities and EUR 25 million in deferrals for individuals). In the case of the liquidity guarantee scheme, SID Bank and the Ministry of Finance (i.e. the Republic of Slovenia) established and implemented a scheme in accordance with the ZDLGPE that allowed banks to grant corporate loans with a sovereign guarantee in the potential amount of EUR 2 billion. Limited use was made of that scheme due to the above-described delayed effect of the crisis (only 73 transactions in the total amount of EUR 62 million were executed by the end of the year). Nevertheless, the scheme is extremely important in terms for providing a safety net for the economy if and when additional liquidity will be needed.

With the outbreak of the COVID-19 crisis, conditions relating to the insurance transactions we provide in the name and on behalf of the government changed considerably. In the temporary state aid framework to support the economy in the context of the coronavirus outbreak, the European Commission recognised as temporary non-marketable claims of shorter maturity against debtors from EU and OECD Member States. As a result, all claims against foreign debtors became non-marketable, regardless of their maturity, which had a significant impact on the level, structure and maturity of insurance/reinsurance transactions. On that basis, we also developed several emergency insurance and reinsurance products (according to a top-up scheme). The volume of transactions was thus EUR 1.8 billion in 2020, an increase of 41.2%. Higher insurance volumes were realised, primarily in short-term operations, particularly in the reinsurance of short-term credits, while medium-term insurance transactions and investment insurance transactions were only up slightly. The breakdown of insurance by country was unchanged, with the majority still accounted for by Eastern Europe (30% by Russia, 11% by Serbia, 8% by Ukraine, etc.). The insurance technical result was positive (EUR 5.1 million), as claims paid were very low (EUR 104 thousand). As a result, the stock of contingency reserves rose to EUR 166 million. Those reserves ensure a relatively favourable position should the crisis continue, as they facilitate the mitigation of business risks, as well as the stable and safe operations of Slovenian exporters, investors and others involved in international trade.

Similar to all entities, SID Bank was exposed to increased risks due to the COVID-19 crisis that have not yet been fully realised. We therefore dedicated special attention last year to the management of those risks and potential future risks due to the COVID-19 crisis. We made the necessary adjustments to our existing policies and strategies for the management of all types of risks, although the main risks to which the Bank is exposed are credit, interest rate, operational and profitability risk. In that respect, the Bank has a clearly defined policy and appetite for individual types of risk, as well as an overall strategy that defines all necessary procedures for the identification, measurement, assessment and management of risks, together with SID Bank’s organisational structure and risk culture. We made additional changes and adjustments in those areas due to the crisis conditions. Nevertheless, the risk framework and risk appetite indicators did not change significantly due to the COVID-19 pandemic, as the Bank was capable of taking up increased risks and functioning on an intervention and counter-cyclical basis without such changes, which resulted in a significant increase in risk-weighted assets at the end of the year. The Bank did not adjust its credit standards on account of the COVID-19 pandemic or its strategic policies in this area. However, when assessing the credit quality of those borrowers who were granted moratoria, SID Bank separates those who will, in the long run, not be adversely affected by the current conditions and those who will probably fail to achieve the pre-crisis level of credit quality. Special attention was given to interest rate risk and the updating of the measurement methodology, and to operational risks where we strengthened the control environment and culture, in particular.

In the scope of the Supervisory Review and Evaluation Process (SREP) for credit institutions, we successfully completed the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), and met all supervisory expectations, even in the context of the COVID-19 crisis and the latter's negative effects on the economy and banks. To that end, the capital buffer was reduced for the Bank as an other systemically important institution by 0.25%, meaning that the total SREP capital requirement for 2021 was reduced by the same amount.

The Bank's regulatory capital was up by EUR 32.7 million or 8% to stand at EUR 457 million. Capital adequacy nevertheless fell to 29.1%, as the result of intervention lending and an increase in the Bank's risk-weighted assets, but remains high. The quality of the Bank's assets remains good, as the proportion of non-performing exposures was 3.6%, while their coverage stood at 53.8%. The Bank recorded net expenses from the creation of impairments and provisions in the amount of EUR 30.1 million, which was due to the combination of deteriorating economic conditions and macroeconomic forecasts and conscious decisions regarding increased lending during the crisis, particular to higher-risk companies. The Bank carried out the necessary stress tests based on internal and regulatory scenarios, and thus identified where its operations are vulnerable in these crisis conditions.

Leverage was down to stand at 14.7%, but remains well above the regulatory threshold. The Bank's liquidity was very high, as its liquidity ratios (LCR and NSFR) were well above the regulatory ratios.

The above-described risk management and capital and liquidity adequacy will continue to facilitate the Bank's stable and robust operations in the future.

SID Bank generated a net profit in the amount of EUR 8.5 million in 2020, which was a significant decrease relative to the record set in 2019, when the Bank recorded one-off non-interest income. Last year's profit was down slightly on the average of previous years as the result of the above-described emergency creation of impairments, lower interest rates during the crisis and the Bank's interest margin, which amounted to 0.9%, as well as new rules for interest recognition and the resulting lower level of interest income. The latter amounted to EUR 28.6 million, a decrease of 7.6%. Net non-interest income was down by 14.6% and amounted to EUR 35.7 million. That decrease was the result of the previous year's high extraordinary non-interest income due to the sale of the then-subsidiary SID-PKZ (now Coface PKZ). During the current crisis, the profitability of the Bank is subordinated to efficient operations in support of the economy.

For similar reasons, the cost-to-income ratio (CIR) was higher at 31.1%. Operating costs were 9.4% higher to stand at EUR 18.3 million, primarily due to the Bank's intervention activities and the resulting upgrading of the Bank's information system and additional hiring.

A significant increase in the provision of services in connection with direct intervention financing, insurance and guarantee schemes dictated additional procedural and organisational adaptations, as SID Bank provided financing to the economy for the most part via commercial banks in the past, including during the previous crisis. This required sound management and coordination, as well as a great deal of effort from our employees, as 80% of the Bank's staff worked from home for the majority of the year due to the epidemic. I would therefore like to take this moment to thank all co-workers for their extraordinary work in the unique conditions of the pandemic, which we have managed well with just nine infected employees to date.

SID Bank views the crisis as a challenge and an opportunity. As the challenge of adapting the Bank's instruments to the needs of the economy in different phases of the crisis, and as an opportunity to identify potential internal deficiencies so that we can become even better. To that end, we also updated our strategy to focus on adapting to the new circumstances and especially to a significant increase in direct demand for corporate lending and the Bank's digital transformation, if we want to continue providing financing and insurance to the Slovenian economy. We therefore continued to re-engineer processes and upgrade the Bank's information system. Due to the Bank's active intervention role, we encountered deferrals of several months and certain procedural delays resulting from public procurement, while not all tasks were carried out in accordance with plans. We therefore updated the IT strategy, developed new projects and continued with the implementation of support for the process of financing, a new core system and an upgraded data warehouse, and thus accelerated the upgrading of the information system in line with guidance from the Bank's supervisory board, which dedicated special attention to that topic. For the purpose of improving information security and due to a rising number of cyber-attacks, the Bank conducted several special audits of information security and dedicated a great deal of attention to training and raising awareness in this area, including personal data protection, digitalisation and online work during the period of home working.

Orderly wind-down activities continued last year within the Prvi Faktor Group in the context of cost reduction, optimisation and the liquidation of the portfolio, as the aforementioned group once again ended the year with a loss due to high liquidation costs and a low number of liquidations of claims as the result of the COVID-19 crisis.

The results of the Centre for International Cooperation and Development were down relative to previous years and the centre generated a minor loss (of EUR 19 thousand) due to failure to sign an agreement with the government on the financing of international development cooperation projects and the effects of the COVID-19 crisis, which resulted in the suspension of those projects. In accordance with those events, the two founders are agreeing on the centre's operating strategy going forward.

Taking into account the current conditions, SID Bank continued with its international activities to a lesser degree. Thus, as a member of several international associations of financial institutions, including the European Association of Public Banks (EAPB), the Network of European Financial Institutions for SMEs (NEFI), the European Association of Long-Term Investors (ELTI), and the Berne Union, we continued during this crisis year to transfer best practices to the Slovenian financial and development environment and to exchange crisis-related experiences and services.

Restrictions on everyday life and work during the COVID-19 crisis also affected SID Bank's socially responsible activities in 2020. The lockdown resulted in significant savings and the reduction of CO_2 emission due to reduced travel and particularly due to the migration of operations to a work-from-home regime. The latter was a very complex task that the Bank completed successfully.

We pursued the principles of responsible lending and borrowing, even in the implementation of crisis intervention measures, while the implementation of special valuations for the circular economy and other environmental impacts (our system of five balance sheet scorecards) was slightly curtailed due to the COVID-19 crisis. We nevertheless made several new procedural and substantive changes and drafted an implementation plan for 2021 in accordance with the Green Deal and the EBA guidelines on sustainable finance.

During the year we enhanced our respect for environmental, social and governance (ESG) criteria and improved accessibility for all customers, in particular for SMEs, and communicated actively with the external public and all stakeholders to improve the understanding of SID Bank's counter-crisis and intervention measures during this difficult period for the Slovenian economy and society as a whole.

I would thus like to express special thanks to all stakeholders with whom cooperation was especially intense during the previous year – the relevant ministries, the Bank of Slovenia, the Bank Association of Slovenia, all companies and the Chamber of Commerce and Industry of Slovenia, and especially our regulatory and supervisory authorities, the supervisory board and the International Trade Promotion Commission who supported our efforts and work during the crisis through their decisions.

At the same time, this year's results also reflect our concern for the future, primarily in terms of the risks that are covered by a large new portfolio of insurance products and new crisis credits to companies, and especially the potential development of events in the business environment. Our main concern is the cliff effect when moratoria fall due and state support measures are withdrawn.

We are aware that conditions have changed considerably, and that we must adapt our strategy, business model, information system, and the way we work, secure new funding and use/manage our capital to those changes. Through a new information system and different new sources, our aim in the future is to further improve the user experience. We will therefore continue with digitalisation of processes that will be adapted to the new conditions, the needs of companies and the work method and mission of SID Bank.

The COVID-19 crisis, in all of its dimensions, revealed certain deficiencies and turned our attention to how we live and work, and accelerated certain processes. It accelerated environmental, green and other social processes, in particular the paradigms of sustainable development and the circular economy. SID Bank has been promoting these two development paradigms for more than 10 years, and welcomes the fact that other entities and financial institutions have recognised their importance in the current crisis. Only together, we can all contribute to the green transition, and an inclusive and equitable future of technological and human progress. And this will be a major task for sustainable financing, particularly for promotional and development banks such as SID Bank, in the decade following the COVID-19 crisis. We welcome these tasks and challenges, and are prepared to take them on and overcome them, together with other stakeholders in the Slovenian economy.

Sibil Svilan, M. Sc.

Report of the Supervisory Board for 2020

In monitoring and supervising the operations of SID Bank and the work of the management board, the supervisory board performed its work in accordance with the powers and responsibilities prescribed by law, the articles of association, codes of conduct, and its own rules of procedure, and within that framework and taking account of the Bank's strategic policies and the risks to which the Bank is exposed, assessed the adequacy of the Bank's management and its performance.

There were several changes in the membership of the supervisory board in 2020: Anton Rop joined the supervisory board as a member at the beginning of the year and then resigned from that position on 16 June 2020. The Slovenian government recalled member of the supervisory board Monika Pintar Mesarič in September 2020 and appointed three new members. The composition of the supervisory board at the end of 2020 was thus as follows: Marjan Divjak (chair), Janez Tomšič (deputy-chair), Zlatko Vili Hohnjec, Leo Knez, Igor Masten, Sašo Polanec and Marko Tišma.

The supervisory board held fifteen ordinary sessions and eight correspondence sessions in 2020, at which it discussed general and specific matters relating to the Bank's operations and performance, and also made decisions on certain transactions in line with its powers to do so. The members of the supervisory board participated in the sessions in full attendance, while the rare absences were reported in a timely manner in line with the rules of procedure and did not obstruct the work of the supervisory board.

The members of the supervisory board actively participated in discussions, both through comments and guidelines, and also through various questions and requests for clarification. Its decisions were made unanimously. The members of the supervisory board signed a statement of independence through which they affirmed that there were no circumstances that could influence their impartial, professional and comprehensive judgement in the discharging of their duties or decision making. Statements of members of the supervisory board are published on SID Bank's website. In the discharge of their duties and decisions by supervisory board members, there were no circumstances or conduct that led or could have led to conflicts of interest. Potential conflicts of interest were managed in a manner that the supervisory board member in question did not receive materials and information, and was not present at the session during the discussion and decision-making on the matter in which they had a conflict of interest.

Several committees provided expert support to the supervisory board in the latter's work. Those committees were as follows:

- the audit committee, which held seven regular sessions and one correspondence session, at which it discussed and drew up positions primarily with regard to the Bank's interim performance reports and financial statements, the compilation of the Bank's unaudited annual report for 2019, the final auditor's report on the audit of the financial statements for 2019, the Bank's original and revised financial plans for 2020, regular quarterly reports of the internal audit department, the annual report of the internal audit department and the work plans of the internal audit department, and the conclusions from the external assessment of the quality of internal auditing. It also monitored the progress of the final audit for 2019 and the preliminary audit for 2020;
- the risk committee, which held nine regular sessions and one correspondence session, and provided expert support to the supervisory board with regard to risk appetite and risk management, drew up positions primarily with regard to the risk management strategy and policy, the methodologies and assessments of the risk profile of the Bank, the methodologies and implementation of the internal capital adequacy assessment process and the internal liquidity adequacy assessment process, the Bank of Slovenia findings in the supervisory review and evaluation process, and risk management and control at the Bank in the scope of the discussion of regular quarterly risk reports and the annual

report for 2019, the risk policy and selection of risk appetite indicators in the Bank's annual operational plan for 2021, the interest rate risk management policy, the non-performing exposure management strategy, the report on the annual review of the management of external contractors, changes to the rules on the determination of credit ratings, and risk analyses accompanying the launch of new products on the market. In connection with the requirement for aligning SID Bank with the revised EBA guidelines for the management of interest rate risk in the banking book, it monitored the implementation of the associated action plan;
- the nomination and remuneration committee, which held ten regular and two correspondence sessions, and provided the supervisory board with expert support, in particular, in the assessment of the adequacy of remuneration policies and practices and changes to remuneration policies, the proposed recruitment plan and labour costs in the scope of the Bank's financial plan for 2021, discussed and approved the assessment of the management body with regard to the knowledge, skills and experience of individual members of the management board and the supervisory board and the management body as a whole, and an assessment of the structure, size, composition and performance of the management board and supervisory board and, with regard to changes in the membership of the supervisory board, i.e. the appointment of new members, discussed and approved the suitability assessments drawn up by the suitability assessment committee. It also led the selection process for an additional (third) member of the management board, which was completed at the beginning of 2021 without the selection of a candidate.

The major issues discussed and/or decided on by the supervisory board in 2020 were:
- the annual report for 2019 with the auditor’s report, and the proposal for the use of distributable profit for 2019;
- the Bank’s strategy for the period of 2021 to 2023, and the achievement of strategic indicators;
- the annual operational plan, with elements of the business policy and risk policy, the financial plan for 2020, and the revised financial plan for 2020 as a response to the COVID-19 crisis;
- the risk management strategy and policy, and the risk appetite;
- regular reports on the performance of the Bank and risk reports, in the scope of which the supervisory board closely monitored the impact of the COVID-19 crisis on the Bank’s performance and the materialisation of risks;
- the Bank’s risk profile assessment for 2020;
- the report on the internal capital adequacy assessment process and internal liquidity assessment process submitted to the Bank of Slovenia, and the Bank of Slovenia’s findings in the supervisory review and evaluation process;
- the close monitoring of the implementation of the IT strategy and measures to upgrade the Bank’s information system;
- the internal audit department’s work plan for 2021 and strategic work plan for 2021 and 2022 and quarterly reports by the Internal Audit Department;
- the compliance department’s work programme, the report on the implementation of the programme, and the annual report on the implementation of the code of ethics and professional standards;
- decision-making on specific financing and borrowing transactions in line with its powers under the articles of association;

- the introduction of new products and programmes by the Bank, primarily in the scope of loan funds in connection with financial engineering and financial instruments in the scope of the management of funds of funds (EU cohesion funds), and indirect financing;
- the management strategy and plan to reduce non-performing exposures;
- regular reports on forbearance and corporate restructurings;
- rules on determining credit ratings;
- the report on the annual audit of outsourcing;
- remuneration policy;
- the orderly wind-down of the undertakings in the Prvi Faktor Group.

In its monitoring and supervision of the Bank's management and operations, the supervisory board obtained regular and comprehensive information from the management board, and obtained all the requisite additional information based on which it was able to continuously assess the performance and work of the management board, and to take decisions pursuant to its powers.

Given the trend of growth in operations and the variety of SID Bank's mandates as well as the need to discuss key priorities in connection with the internal development of the Bank, the supervisory board invoked the possibility under the articles of association, and decided to expand the number of management board members to three. On that basis, the process to select an additional (third) member to the management board was initiated in October 2020 and completed in February 2021 without the selection of a candidate. The supervisory board is pursuing the objective of a three-member management board in the process of selecting a management board for the period 2022 to 2026. That process was initiated in February 2021.

In March 2021 the supervisory board carried out a self-assessment of its work in 2020 on the basis of the recommendations of the manual governing the assessment of the efficiency of the work of supervisory boards issued by the Slovenian Directors' Association. Before beginning the self-assessment procedure, the supervisory board members also obtained reports on the work of all three of the supervisory board committees. The results of the self-assessment confirm that the supervisory board carried out its work professionally, with due diligence and responsibly and in line with the interests of the Bank, and that the individual members of the supervisory board and the supervisory board as a whole possess adequate knowledge and experience to enable the high-quality and effective discharging of the duties that fall under the competence of the supervisory board. The supervisory board also discussed the results of the self-assessment with regard to the activities required for the further improvement of the work of the supervisory board.

Approval of the 2020 annual report

The unaudited annual report of SID Bank for 2020 was discussed by the audit committee and the risk committee at sessions on 17 March and 18 March 2021, and by the supervisory board at a session on 18 March 2021. The audited annual report, together with the final report to the audit committee on the audit of the financial statements for 2020 and the auditor's report on the findings regarding the fulfilment of risk management rules at banks and savings banks for SID Bank were discussed by the audit committee and the risk committee on 8 April 2021. The certified external auditor also gave a report at the sessions of both committees. The two committees assessed the annual report as satisfactory, and proposed that the supervisory board approve it.

The supervisory board discussed and reviewed the annual report of SID Bank at its session on 8 April 2021, together with the proposal for the use of distributable profit for 2020 submitted by SID Bank's management board in accordance with Article 4 of the ZSIRB.

The supervisory board also discussed the independent auditor's report to the shareholders of SID banka, d.d., Ljubljana on the audit of the financial statements, in which Deloitte Revizija d.o.o., Ljubljana issued an unqualified opinion regarding the financial statements of SID banka d.d., Ljubljana for 2020. In the auditor's opinion, the financial statements present fairly, in all material aspects, the financial position of the company as at 31 December 2020, and its operating results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union. The supervisory board had no reservations or comments with regard to the report by Deloitte Revizija d.o.o.

After its verification, the supervisory board unanimously approved the annual report of SID banka, d.d., Ljubljana for 2020.

Marjan Divjak, M. Sc.
Chair of the supervisory board

About SID Bank

SID Bank is a specialised promotional, export and development bank authorised to provide long-term financial services designed to supplement financial services in various areas defined by the Slovene Export and Development Bank Act (hereinafter: the ZSIRB) as important for promoting the competitiveness of the Slovenian economy and for Slovenia's sustainable development. Essential amongst the activities that SID Bank performs are the supplementation of the range of products and services of commercial banks and the elimination of market gaps that arise when the range of financial and insurance services is insufficient to meet market demand, particular with respect to SMEs, development, environmental protection, circular economy, infrastructure and energy projects, and the promotion of the internationalisation of companies, as well as cyclical gaps following changes to the ZSIRB.

SID Bank's activity is based on a clear strategy and business model that derives from the long-term development documents of Slovenia and the EU. The long-term stability of SID Bank's operations is guaranteed by the Republic of Slovenia, allowing it to execute the transactions and perform the activities through which SID Bank pursues the long-term development policies of Slovenia and the EU. As the sole shareholder, the government bears irrevocable and unlimited liability for SID Bank's liabilities from transactions undertaken in its pursuit of the activities set out in Articles 11 and 12 of the ZSIRB. 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 Slovenian and international financial markets without needing to obtain a government guarantee for each transaction.

In providing its services, SID Bank may use financial instruments, such as loans, guarantees, bonds and other forms of surety and risk take-up, the purchase of receivables, finance leasing, financial engineering, concessionary loans and other instruments of international development cooperation, capital investments and other methods of financing, and integrates these into internally designed development and promotional financing programmes.

History and legal status

1992 Establishment of Slovenska izvozna družba (SID) as a special private financial institution for insuring and financing Slovenian exports. SID's business activities were then regulated by the Slovenian Export Finance and Insurance Company Act.

2004 Entry into force of the ZZFMGP,[2] which stipulated that SID bring the insurance operations that it pursued in its own and on its own behalf in line with the regulations governing insurance corporations. SID established an insurance corporation on this legal basis, to which it transferred its portfolio of marketable insurance that were provided in its own name and on its own behalf until the end of 2004.

[2] The ZZFMGP regulated the system for insuring and financing international commercial transactions as instruments of Slovenia's national trade policy.

2005 Commencement of operations of SID – Prva kreditna zavarovalnica d.d., Ljubljana.

2006 At the end of the year, by obtaining an authorisation to provide banking services and other financial services from the Bank of Slovenia, SID was converted into a bank and changed its name to SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana.[3]

2007 Commencement of operations of SID Bank as a specialist promotional, export and development bank.

2008 Entry into force of the ZSIRB, which confers upon the Bank the following two powers:

- SID Bank is authorised to act as Slovenia's specialist promotional, export and development bank in the pursuit of activities under the ZSIRB; and
- SID Bank is the authorised institution for all transactions under the ZZFMGP.

2009 During the economic crisis, SID Bank enhanced its counter-cyclical function by being very engaged in lending and insurance activities.

2010 The updated Banking Act expressly stipulated that SID Bank is authorised as Slovenia's specialist, promotional, export and development bank, and is not allowed to accept deposits from the public.

With the adoption of Commission Directive 2010/16/EU of 9 March 2010 amending Directive 2006/48/EC of the European Parliament and of the Council, the European Commission 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.

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3 Henceforth in the annual report any use of 'SID Bank' or 'the Bank' refers to SID banka, d.d., 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'.

2011

SID Bank was confirmed as a significant institution in the Slovenian banking system on the basis of a decision by the Bank of Slovenia in October.

SID Bank and the MEDT signed an agreement on financing and implementation of the first financial engineering measure in Slovenia.

2013

The government gave its consent to key elements of the financial engineering measures to promote the development of SMEs, on the basis of which a new EUR 500 million loan fund was established at SID Bank. SMEs thus gained an opportunity to obtain loans to finance working capital and new investments, and the corresponding recruitment.

2014

SID Bank was one of three Slovenian banks at which the ECB carried out a comprehensive assessment, comprising an asset quality review and stress tests. The comprehensive assessment was passed by SID Bank, and no capital shortfall was identified.

2015

On the basis of the ZBan-2, the Bank of Slovenia issued a decision designating SID Bank an O-SII (other systemically important institution).

As a promotional and development bank, SID Bank began to introduce in its operations the framework and concept of the circular economy in Slovenia.

2016

Under the agreement on financing and implementing the financial engineering measure to promote the investments, operations and capital enhancement of SMEs, SID Bank established a new loan fund in conjunction with the MEDT, within the framework of which two credit lines were introduced, namely a development and promotional programme for financing the operations and enhancing the capital of SMEs, and SID Bank's development and promotional programme for financing the investments and enhancing the capital of SMEs, each in the amount of EUR 100 million.

2017

The MEDT and SID Bank signed a financing agreement in which the Republic of Slovenia authorised SID Bank to manage the fund of funds.

Together with the EIF, the Bank set up the Slovene Equity Growth Investment Programme valued of EUR 100 million.

2018

Under the aegis of the fund of funds, EU cohesion funds were used to develop the first financial instruments and selected financial intermediaries for loans for investments related to research, development and innovation, and for microloans.

SID Bank became the first Slovenian issuer to issue green bonds on the international capital market.

2019

Under the aegis of the fund of funds, EU cohesion funds were also used to develop financial instruments in the form of ECP loans for urban development, ECP loans for the renovation of public sector buildings and ECP loans for equity and quasi-equity financing of small and micro enterprises.

The sale and transfer of the entire participating interest in the subsidiary SID – Prva kreditna zavarovalnica to Coface was completed, and an agreement was concluded with Coface PKZ on the reinsurance of all non-marketable receivables.

SID Bank, in conjunction with the MEDT, developed SID Bank's 'Development and promotional programme for financing under the Investment Incentives Act' (Investments 2 programme).

In 2019 SID Bank received the prestigious Best Regional Development Bank – Southeast Europe 2019 award, which is presented by Capital Finance International.

2020

SID Bank has functioned counter-cyclically during the COVID-19 pandemic. It has expanded its financing programmes and introduced new products to help companies handle the economic crisis that followed the pandemic.

The counter-cyclical activities of SID Bank were also seen in 2020 in the acquisition of new authorisations from the Republic of Slovenia for the implementation of government guarantee schemes. A government guarantee for deferred payment obligations and for liquidity loans for the corporate sector is one of many government instruments to mitigate the consequences of the pandemic. In accordance with the rules of the ZIUZEOP and ZDLGPE, administration of that guarantee was entrusted to SID Bank.

Together with the MEDT, SID Bank established the new COVID-19 Fund of Funds in the amount of EUR 65 million to mitigate the consequences of the pandemic on the economy.

In order to secure sufficient funding, the Bank issued a COVID-19 bond in the amount of EUR 350 million.

SID Bank joined the Three Seas Initiative Investment Fund with the aim of providing opportunities for the financing of key infrastructure projects in the so-called Three Seas region, which includes 12 EU Member States between the Baltic, Black and Adriatic Seas.

SID Bank was appointed to chair the Council of the European Union's Exports Credit Group during Slovenia's presidency of the EU Council in 2021.

In line with its role, purposes and tasks, SID Bank primarily provides financial services within the scope of authorisations issued by the Bank of Slovenia. These include, in particular, the provision of loans via commercial banks and savings banks and, in certain cases, in cooperation with other commercial banks in bank syndicates, while the Bank also lends directly to final beneficiaries.

SID Bank's financial services support four main purposes of development:
- development of a knowledge society and innovative enterprise;
- development of an environment-friendly society and environment-friendly production;
- development of a competitive economy; and
- regional and social development.

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

As at 31 December 2020, SID Bank held the Bank of Slovenia authorisation to provide the following mutually recognised financial services under Article 5 of the ZBan-2:[4]
- acceptance of deposits from informed persons;
- granting of loans, including:
  - mortgage loans;
  - purchase of receivables with or without recourse (factoring);
  - financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting);
- issuance of guarantees and other sureties;
- trading for own account or for the account of customers:
  - in foreign legal tender, including currency-exchange transactions;
  - in standardised futures and options;
  - in currency and interest-rate instruments;
- trading on own account:
  - in money-market instruments; and
- credit rating services: collection, analysis and dissemination of information about creditworthiness.

[4] The authorisation to provide banking services is published on the Bank of Slovenia's website: https://www.bsi.si/financna-stabilnost/subjekti-nadzora/banke-v-sloveniji/11/sid-slovenska-izvozna-in-razvojna-banka-dd-ljubljana.

Insurance against non-marketable risks

SID Bank provides insurance for international business transactions against non-marketable risks under the ZZFMGP in the name and on behalf 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 Republic of Slovenia in the form of contingency reserves, which are used to settle liabilities to the insured (claims pay-outs) and to cover losses on these operations. Contingency reserves are also created from premiums, fees and commissions, recourse from paid claims and other income generated by SID Bank from insurance and reinsurance against non-marketable risks. If the claims cannot be settled from the aforementioned reserves, the funding for pay-outs is provided by the Republic of Slovenia.

Fund of Funds for the implementation of financial instruments within the framework of the European Cohesion Policy 2014–2020 and the COVID-19 Fund of Funds.

In November 2017 the MEDT appointed SID Bank as manager of the fund of funds for the implementation of financial instruments within the European cohesion policy framework, into which EUR 253 million will be paid by 2023 from European cohesion funds that were available to Slovenia in the 2014–2020 financial perspective. The purpose of establishing this fund is the promotion and financing of sustainable economic growth and development, investments in innovations and current operations through debt and equity financing on four areas in which market gaps were identified based on a preliminary assessment of financing gaps that was conducted by the Slovenian company PwC (*Pricewaterhouse Coopers*) and supplemented by an analysis conducted by the European Investment Bank: research, development and innovations, small and medium-sized enterprises, energy efficiency and urban development.

Together with the MEDT, SID Bank created the COVID-19 Fund of Funds in October 2020 aimed at financing investments, research, development, innovations and working capital in order to improve liquidity and facilitate the recovery of the economy, which was hit hard by the COVID-19 pandemic. Within the fund additional EUR 65 million of the European cohesion policy funds are designated, based on which a total of EUR 95.1 million is available to final beneficiaries in the form of financial instruments, such as micro loans and loans for research, development and innovations. The financing of final beneficiaries in the form of micro loans will be carried out via selected financial intermediaries, while SID Bank will provide RDI loans itself.

Performance of the function of official auctioneer at emission allowance auctions

Based on amendments to the Environmental Protection Act, SID Bank was authorised in 2010 to act as official auctioneer at emission allowance auctions in the name and on behalf of the Republic of Slovenia.

Guarantee schemes based on intervention measures in 2020, and guarantee schemes and sureties for investments

Based on two intervention acts, specifically Article 65 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP) and the Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic (ZDLGPE), the Republic of Slovenia authorised SID Bank in 2020 to carry out all transactions in its name and on its behalf in connection with the liquidation of guarantees, monitoring and implementation of all necessary measures for the enforcement of recourse receivables, and to verify, following the payment of a guarantee, that the conditions on the basis of which the bank approved the deferral of payment under the Emergency Deferral of Borrowers' Liabilities Act (ZIUOPOK) in connection with Article 65 of the ZIUZEOP, or a guaranteed loan under the ZDLGPE are respected.

In accordance with the two new guarantee schemes under the ZIUZEOP and ZDLGPE, activities were carried out in 2020 to establish organisational and staffing conditions and information support at the Bank for the execution of authorised transactions, cooperation with the ministry responsible for finance in the formulation of legal and regulatory provisions, and the establishment of bases for reporting by banks to SID Bank and reporting by SID Bank to the ministry responsible for finance.

Activities carried out in 2020 in respect of the guarantee scheme under the ZDLGPE included a review of a list of the banks' documentation in connection with concluded loan agreements and the resulting issue of statement confirming the allocation of Slovenian government guarantees to banks, and monitoring of the reporting of banks' data to the scheme.

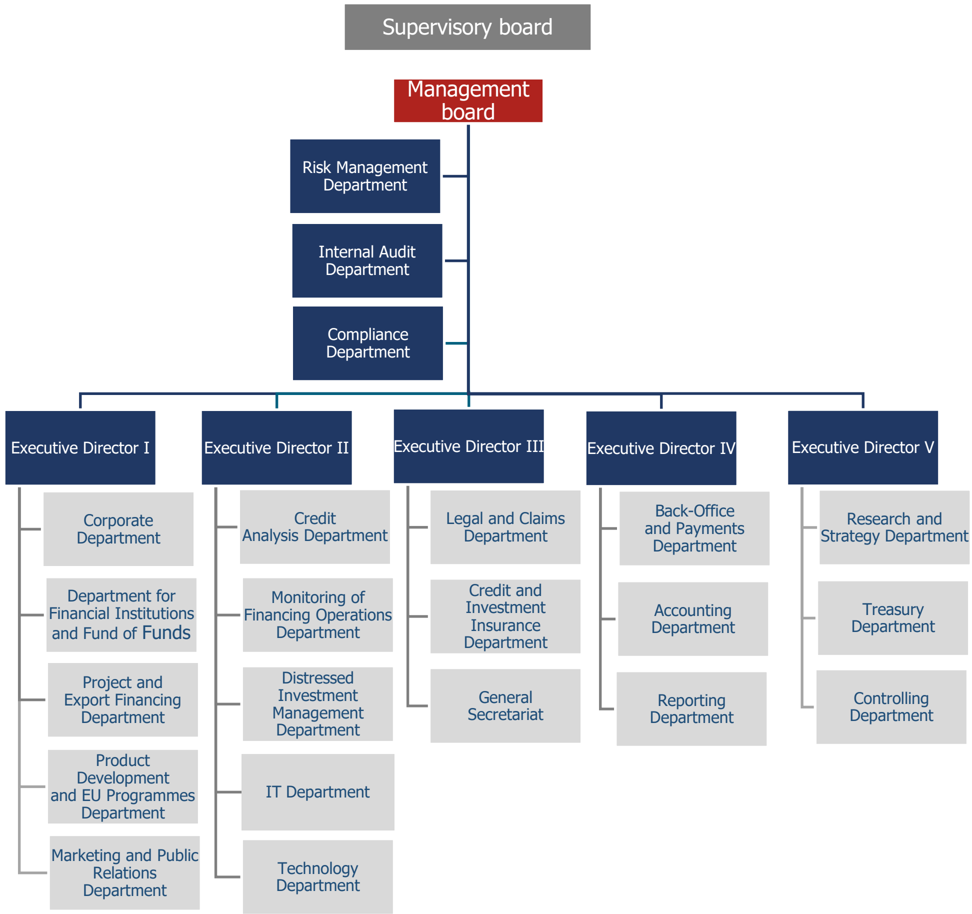
Activities carried out in 2020 in respect of the guarantee scheme under the ZIUZEOP included monitoring of the reporting of banks' data on deferred credit obligations to the scheme, and the processing of requests for the payment of Slovenian government guarantees.

On the basis of three laws, i.e. the Republic of Slovenia Guarantee Scheme Act, the Republic of Slovenia Guarantee Scheme for Natural Persons Act and the Republic of Slovenia Guarantees for Financial Investments by Companies Act, SID Bank also exercised authorisations in 2020 in the name and on behalf of the Republic of Slovenia in the form of issuing guarantees. The statutory deadline for issuing government guarantees passed at the end of 2010 for the first two laws, where loan agreements with the longest maturity of 10 years expired at the end of 2020 (only loans for which debt restructuring was agreed are still active), and at the end of 2015 for the third.

Activities carried out in 2020 under all three schemes include the processing of applications for consent to contractual amendments, requests for the payment of guarantees and the enforcement of recourse claims.

SID Bank's activities under Republic of Slovenia authorisation in 2020 are presented in detail in the section entitled Operations under Republic of Slovenia authorisation.

Organisational structure of SID Bank as at 31 December 2020



Due to the core IT project, the monitoring of financing operations department was temporarily moved under pillar IV during the implementation of the aforementioned project, while credit analysis department was moved under pillar V.

With the aim of optimising the organisational structure of the general affairs and HR department and more effective communication and coordination between the management board and the Bank's departments, the general affairs and HR department was transformed in 2020 into the General Secretariat, which includes four functions: HR, business process management, international affairs, facility management and procurement. The most significant changes in the internal organisational structure included changes in the organisation of the work of the credit and investment insurance department, where the expansion of systemisation within that organisational unit was required due to new authorisations issued by the Republic of Slovenia (guarantee schemes) and the organisation of agency business.

The special function of data management was established within the reporting department with the aim of centralised control over the management and quality of data at the Bank.

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 shareholder register and all procedures for share trading are administered at the Central Securities Clearing Corporation in Ljubljana.

Shareholders as at 31 December 2020	Number of shares	Proportion of share capital (in %)
Republic of Slovenia	3,103,296	99.4
SID Bank (treasury shares)	18,445	0.6
Total	3,121,741	100.0

There were no changes to share capital in 2020, which amounted to EUR 300 million as at 31 December 2020.

There are no restrictions 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.

In accordance with Article 4 of the ZSIRB, the Republic of Slovenia is the sole shareholder of SID Bank, and the distributable profit may not be used for distribution to shareholders, but is instead allocated to other profit reserves.

On 2 July 2020 SID Bank's general meeting passed a resolution allocating the distributable profit for 2019 in the total amount of EUR 17,061,948.97 to other profit reserves.

The Bank's total shareholder equity amounted to EUR 476,107 thousand as at 31 December 2020, while the audited book value of one share stood at EUR 153.42 (31 December 2019: EUR 149.47).

About the SID Bank Group

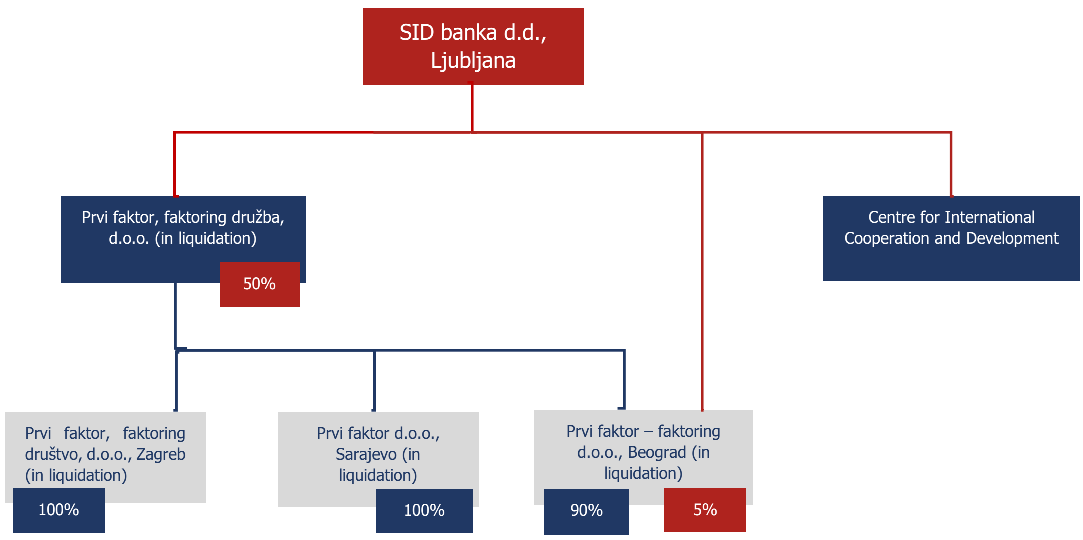
SID Bank Group

As at 31 December 2020, in addition to SID Bank, the SID Bank Group also comprised:

- Prvi Faktor Group, which SID Bank jointly controls on the basis of an agreement (joint venture); and
- the Centre for International Cooperation and Development (CMSR), of which SID Bank is a co-founder and in which it does not have any financial stake, but holds 33% of the voting rights (associate).

The investments in the joint venture and associate are accounted for in the consolidated financial statements according to the equity method. Based on the principle of immateriality, which defines information whose omission or non-disclosure does not affect the decisions of the users of the financial statements as immaterial, SID Bank does not include either of the companies referred to in the previous paragraph in consolidation, as the combined total assets of the two companies amount to less than 1% of SID Bank's total assets.

Organisational structure of the SID Bank Group as at 31 December 2020



About group companies

Prvi faktor, faktoring družba, d.o.o. (in liquidation)

SID Bank acquired a 50% interest in the share capital and half of the voting rights of the company in 2002. The other partner is Nova Ljubljanska banka d.d., Ljubljana (NLB).

The nominal value of SID Bank's interest in the company stood at EUR 1,584,209.65 as at 31 December 2020.

The main activity of Prvi faktor, faktoring družba, d.o.o., Ljubljana (in liquidation) was the provision of factoring services. On 28 December 2016 the company's general meeting passed a decision to initiate voluntary liquidation proceedings, and to appoint the two previous directors as liquidators. The liquidator of the company in 2020 was Klemen Hauko. SID Bank was represented at the general meeting in 2020 by its proxies Saša Keleman and Branko Jerak.

Prvi faktor, Ljubljana (in liquidation) is also the founder and:

- 100% owner of Prvi faktor, faktoring društvo, d.o.o., Zagreb (in liquidation). The company was established on 17 December 2003. Its share capital amounts to HRK 19,466,600 (or EUR 2,582,839.78 according to the middle exchange rate of the Croatian National Bank as at 31 December 2020). The company has been in liquidation since 31 December 2016. The liquidator of the company in 2020 was Jure Hartman. The chair of the company's supervisory board was Klemen Hauko, while Igor Jarc and Matjaž Jevnišek are the other members;
- 100% owner of Prvi faktor d.o.o., Sarajevo (in liquidation). The company was established on 27 February 2006. The company's share capital amounts to KM 2,838,162 (or EUR 1,451,129.19 according to the middle exchange rate of the Central Bank of Bosnia and Herzegovina as at 31 December 2020). The company has been in liquidation since 29 December 2016. The previous director and current liquidator of the company is Đenan Bogdanić;
- 90% owner of Prvi faktor – faktoring d.o.o., Beograd (in liquidation). The company was established on 24 February 2005. The company has been in liquidation since 3 August 2017. The company's share capital amounts to RSD 299,196,366 (or EUR 2,544,615.22 according to the middle exchange rate of the National Bank of Serbia as at 31 December 2020). With the conversion of cash and receivables into equity in the company by NLB and SID Bank, changes were made in the company's ownership structure at the end of July 2017, with both owners each gaining a 5% direct interest. The company was managed by liquidator Željko Atanasković in 2020. SID Bank was represented at the general meeting in 2020 by its proxies Saša Keleman and Branko Jerak.

Centre for International Cooperation and Development

SID Bank is a co-founder of the Centre for International Cooperation and Development (hereinafter: CMSR) together with the Republic of Slovenia. On the basis of the International Development Cooperation and Humanitarian Aid of the Republic of Slovenia Act, the CMSR carries out technical and operational work in the field of international development cooperation, as well as macroeconomic, political and other analysis of sovereigns, assessments of country risk and publicity activities.

The CMSR's management bodies are its director and council. The institute is represented by its director Klemen Potisek. The council had six members as at 31 December 2020. SID Bank's representatives on the council are Bojan Pecher, who is also deputy chair of the council, and Igor Jarc.

Corporate governance statement

In accordance with the fifth paragraph of Article 70 of the ZGD-1, SID Bank hereby issues the following corporate governance statement.

Reference to codes, recommendations and other internal regulations on corporate governance, and on derogations from codes and recommendations

SID Bank is a company with a capital asset of the state, and is a public company in the sense of the Financial Instruments Markets Act.

SID Bank complied with the following codes and recommendations in its operations in 2020:

– the Slovenian Corporate Governance Code issued by the Ljubljana Stock Exchange and the Slovenian Directors' Association on 27 October 2016 for the purpose of effective corporate governance. The full text of the code is available on the Ljubljana Stock Exchange's website (http://www.ljse.si/); and
– the Corporate Governance Code for Companies with Capital Assets of the State, which was issued by Slovenski državni holding d.d. in May 2017 (last updated in November 2019), and the Recommendations and Expectations of Slovenian Sovereign Holding, which was issued by Slovenski državni holding d.d. in March 2018 (last updated in August 2020). The two documents are published on Slovenski državni holding d.d.'s website (www.sdh.si).

Details of the derogations from the aforementioned codes and recommendations and the arguments for these derogations are presented below, and primarily proceed from the special statutory arrangements for the operations of SID bank in the ZSIRB and ZBan-2.

Slovenian Corporate Governance Code

Corporate governance framework

Recommendation 1
SID Bank operates in accordance with the fundamental principles of operations primarily set out in the ZSIRB. The role, purpose and operations of SID Bank are set out in the Bank's articles of association. One of the five basic principles of SID Bank's operations is the *'principle of the financial value of the Bank's services for the users thereof'*, which specifies that SID Bank provides all services with the aim of generating direct or indirect value-added for the users of SID Bank's financial services and, above all, maintaining and increasing its capital without pursuing the objective of maximising profit (Article 9 of the ZSIRB).

Relations between the company and its shareholders

Recommendation 6
The ownership of SID Bank is prescribed by the law. Only the Republic of Slovenia can be a shareholder in SID Bank. This recommendation is thus applied *mutatis mutandis* (Article 4 of the ZSIRB).

Recommendations 8.1., 8.2, 8.4 and 8.10
The Republic of Slovenia is the sole shareholder in SID Bank (Article 4 of the ZSIRB).

Recommendation 8.9
A representative of the auditor is not invited to the general meeting. The sole shareholder (Slovenski državni holding) is regularly briefed on SID Bank's performance.

Supervisory board

Recommendations 9, 10 and 12
The manner in which the members of SID Bank's supervisory board are appointed is set out in the ZSIRB and ZBan-2. The ZSIRB, as a special law, specifies that the members of the Bank's supervisory board are appointed by the Republic of Slovenia, six based on the proposal of the minister responsible for finance and one based on the proposal of the minister responsible for the economy. Applicable with regard to other conditions are the provisions of the ZBan-2 and implementing regulations, including the Decision on the management system, management body and internal capital adequacy assessment process for banks and savings institutions and the Decision on the application of the Guidelines on the assessment of the suitability of members of the management body and key function holders. SID Bank has adopted the appropriate internal acts governing the appointment of members of the Bank's supervisory board (the governance policy, the policy for the selection of supervisory board members and the policy for the assessment of the suitability of members of the management body and key function holders).

SID Bank implements its corporate governance arrangements in accordance with the legislation applicable in Slovenia, taking into account its own bylaws (e.g. its articles of association, governance policy, and code of ethics and professional standards). Furthermore, SID Bank also takes account of the regulatory framework of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), the legal acts of the ECB, and the regulations and other acts of the Bank of Slovenia.

Supervisory board committees

Recommendation 18.1
In accordance with the ZBan-2, SID Bank has three committees: an audit committee, a risk committee and a nomination and remuneration committee.

Recommendations 18.2 and 18.3
In accordance with the ZBan-2, only members of the Bank's supervisory board may serve as members of the latter's committees.

Transparency of operations

Recommendations 27.3 and 29.3
The ZSIRB specifies the ownership of SID Bank, which is limited exclusively to the Republic of Slovenia (Article 4 of the ZSIRB).

Recommendation 28.2
It is applied *mutatis mutandis*.

Corporate governance code for companies with capital assets of the state

3. Corporate governance framework for companies with capital assets of the state

Recommendation 3.6
The composition of SID Bank's management body is specified by the ZBan-2, which defines, *inter alia*, the appropriate representation of both genders on that bodies (Article 34 of the ZBan-2). SID Bank included that legal obligation in its bylaws (policy on the selection of supervisory board members and policy on the selection of management board members) in such a way that if there are two candidates of different gender who meet all of the conditions to fill a position and they are equally assessed, the person selected to fill that position is the one who contributes to the diversity of the body's composition and the appropriate representation of both genders.

4. Relationship between shareholders or partners, SSH, the state and companies with capital assets of the state

Recommendation 4.2
The ownership of SID Bank is prescribed by the law, with the sole shareholder in SID Bank being the Republic of Slovenia (Article 4 of the ZSIRB).

6. Supervisory board

Recommendations 6.5 and 6.7
The composition of SID Bank's Supervisory Board is stipulated by the ZSIRB and ZBan-2. The recommendation is applied *mutatis mutandis*. Members of SID Bank's supervisory board are appointed by the government, on proposal of the competent ministers (Article 18 of the ZSIRB). The procedure for assessing candidates is conducted in accordance with the ZBan-2, the EBA guidelines and the Bank's bylaws in the manner described in detail in the section relating to the work of the committee for the assessment of the suitability of members of the management body.

Recommendation 6.6
In accordance with Article 49 of the ZBan-2, only members of the Bank's supervisory board may serve as members of the latter's committees.

Recommendations 6.8 and 6.9
In addition to the ZBan-2 and the ZGD-1, the procedures for the nomination and appointment of supervisory board members are also governed by the ZSIRB.

The proposers of candidates for members of the supervisory board are the ministers responsible for finance and the economy. The committee for the assessment of the suitability of members of the management body and the nomination and remuneration committee of the Bank's supervisory board participate in the fit and proper assessment process for candidates for the Bank's supervisory board appointed by the Slovenian government. The recommendation is applied *mutatis mutandis*.

Recommendations 6.11 and 6.14
SID Bank is required to comply with Article 49 of the ZBan-2, which stipulates that, the ZGD-1 notwithstanding, only members of a bank's supervisory board may sit on its supervisory board committees.

7. Senior management

Recommendation 7.3
The work method of the Bank's management board is set out in acts, such as the ZSIRB, ZGD-1 and ZBan-2, in the Bank's bylaws, such as the articles of association, governance policy and code of ethics and professional standards, in the ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, and in the EBA Internal governance guidelines. The recommendation is applied *mutatis mutandis*.

8. Transparency of operations and reporting

Recommendation 8.1.1
SID Bank is required to comply with the ZBan-2 with regard to disclosures, and more precisely in the compilation of its business report it is required to take into account the requirements set out in Chapter 4 of the ZBan-2 (Articles 86 to 93), Section 3.2 of the Regulation on books of account, and Article 70 of the ZGD-1. Disclosures under Part Eight (Articles 431 to 451 and Article 492) of the CRR are included in the financial report, in the format and with the content set out by the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013.

9. Auditing and the system of internal controls

Recommendation 9.2
SID Bank’s internal governance arrangements are governed by the ZBan-2 and the Decision on the management system, management body and internal capital adequacy assessment process for banks and savings institutions, and include established internal control mechanisms (e.g. the risk management department, internal audit department and compliance department, which includes an information security specialist). The recommendation is applied *mutatis mutandis*.

Recommendations and Expectations of Slovenian Sovereign Holding

3. Sponsorship and donations

Recommendation 3.8
SID Bank has adopted a communications strategy, which has neither been approved by the supervisory board nor published on its website. A governance policy that regulates sponsorship and donations among other issues has been adopted by the Bank's management board and supervisory board. Information about sponsorship and donation agreements is published on SID Bank’s website (*https://www.sid.si/o-banki/informacije-javnega-znacaja*).

Recommendation 3.11
SID Bank is not financed from public funds. For this reason, the restrictions referred to in section 3.11 do not apply to it.

4. Cost optimisation

Recommendation 4.4
Taking into account amendments to tax regulations, SID Bank paid annual leave allowance in 2020 in the amount of the average monthly wage in the Republic of Slovenia, and a performance-related payment in line with SID Bank's own collective agreement, which sets out the procedures and criteria for defining payments. Given that payment details constitute a trade secret, SID Bank did not publish this information. Taking into account the Regulation on the macroprudential restriction on profit distribution by banks and subsequent clarifications from the Bank of Slovenia, persons on individual contracts were not entitled to performance-related payments.

Recommendation 4.5
SID Bank has published the collective agreement for the banking sector on its website, but has not published its own collective agreement, which sets out in detail the conditions, criteria and metrics for promotions, and for the assessment of personal on-the-job performance and overall performance, and the amount of other personal remuneration of employees paid by SID Bank on the basis of the collective agreement for the banking sector. SID Bank’s remuneration system is presented in detail in disclosures in the annual report.

7. Sustainable operations of a company

This recommendation was adopted in July 2020. For this reason, SID Bank will report on its implementation for the first time for 2021. SID Bank already complies with the majority of recommendations in the scope of its ordinary operations.

Adoption of rules regarding the other rights of members of management and supervisory bodies

Recommendations 9.5, 9.7 and 9.10
SID Bank's internal rules are in line with the recommendations of SSH in all material aspects. Individual deviations that are not material in nature will be included in SID Bank's bylaws in 2021.

Main features of internal control and risk management systems in connection with the financial reporting procedure

Internal control mechanisms, the functioning of which is in place for all of SID Bank's business processes in proportion to the materiality and risk of an individual process, include:
- internal controls of the implementation of the Bank's organisational procedures, business procedures and work procedures; and
- functions and internal control department that, in organisational terms, report directly and are liable to the Bank's management board.

The implementation of internal controls is primarily carried out on the basis of:
- documented rules and procedures for ensuring the compliance of the Bank's operations with regulations, standards (including ethical standards) and bylaws, and the requirements of the Bank of Slovenia and other competent supervisory authorities;
- monitoring of the compliance of business transactions and investments with adopted risk limits;
- oversight of the proper implementation of the prescribed work procedures in connection with operational and organisational activities on the part of employees;
- verification of the accuracy of internal and external reports;
- safeguarding of the Bank's assets;
- the development and security of the Bank's information systems and information; and
- a suitable response in the event of identified deviations from documented rules and best practices, including the enhancement of the control environment where appropriate.

With regard to financial reporting procedures, internal controls that are primarily carried out at organisational units responsible for risk management, accounting, controlling and reporting have been put in place via bylaws. The functioning of internal controls and risk management at the Bank are also subject to internal auditing, which is carried out by a dedicated organisational unit.

The internal control functions at SID Bank include the internal audit department, the risk management function, which is organised within the risk management department (for more details see the section entitled Risk management in the business report and section 3 of the financial report), and the compliance function, including the information security management function, which is organised at the compliance department.

The supervisory board has established an audit committee, whose work focuses in particular on financial reporting, and a risk committee, whose responsibilities primarily relate to supervision and the provision of advice on risk management.

Compliance risk is the risk of a significant financial loss or loss of reputation owing to legal sanctions and measures by supervisory authorities that the Bank could suffer because of the wilful or accidental failure of its operations to comply with applicable legislation and standards of good practice.

In accordance with the code of ethics and professional standards, all of the Bank's employees are responsible for ensuring compliance with regard to their role and level of responsibility. It is their right and obligation to undergo training in the area of compliance risk management.

SID Bank has had a compliance department since 2009, with two employees responsible for compliance and one responsible for information security. The aforementioned department is an independent and impartial organisational unit that is functionally and organisationally separate from the Bank’s other organisational units, and is answerable directly to the management board. The department’s primary tasks are to identify the compliance risks to which the Bank is or could be exposed in its operations due to the breach of valid regulations and bylaws, valid agreements, prescribed best practices and ethical standards on the one hand, and the strengthening of corporate ethics and integrity on the other.

At least one new employee is expected to be hired in the area of compliance in 2021, while changes will also follow in the area of information security. The management board supports the proposal to establish a *security operational centre*, which would mean a significant step forward in the area of information security.

The department operates in line with its annual work plan which, in addition to regular audits of compliance, includes the performance of an advisory function, in particular with respect to the introduction of new banking products, the prevention of money laundering and terrorist financing, the management of fraud risks, an assessment of the legality and ethics of the conduct of the Bank's stakeholders, participation in the Bank's criminal and civil proceedings, and the training of employees and the Bank's management body.

The department faced challenges in 2020 with regard to operating in changing conditions. Because the department also covers the function of prevention of money laundering and terrorist financing officer, it worked closely with the Bank’s other departments to introduce digital signing and the electronic identification of customers with the aim of ensuring the smooth flow of the credit process. During the pandemic, the introduction the aforementioned functionalities facilitated and sped up the process of concluding business transactions with customers.

The department also dedicated a great deal of attention to the potential use of artificial intelligence in the organisation of work. In terms of monitoring and implementing legislation, intensive efforts are being made to implement a tool for the detection of legislative changes. That tool also includes a module for managing operational risks at the Bank and a module for bylaws, and provides the compliance department software-supported control for the timely adoption and transfer of changes to legislation and best practices to SID Bank’s bylaws.

Also contributing to the digitalisation of work will be the introduction of an *e-learning* platform at SID Bank, for which the Bank’s General Secretariat will be responsible, while the compliance department will be actively included in development and subsequent implementation. Also planned is the continued digitalisation and informatization of the prevention of money laundering and terrorist financing process.

The compliance department also pays special attention to the implementation of issued recommendations. It reports half-yearly to the management body on the realisation of the annual work plan, and on the implementation of recommendations issued on a quarterly basis.

The department also reports to the management body regarding compliance with the code of ethics and professional standards. This includes reporting on the number of received and justified complaints, and reports on suspected breaches of bylaws and best practices. The Bank's system for reporting suspected breaches/complaints (whistleblowing) facilitates the anonymous reporting of suspected breaches and complaints. Detailed procedures are accessible on the website *https://www.sid.si/o-banki/druzbena-odgovornost-etika*.

The department dedicates a great deal of attention to strengthening the corporate ethics and integrity of SID Bank's employees, which is reflected in employee training and periodic verifications of the compliance of employee conduct with the code of ethics and professional standards, as well as the assessment of signs/elements of the criminal and civil liability of employees and the Bank's other stakeholders and suspected fraud.

Again in 2020, the compliance department was involved in identifying loss events and taking the appropriate measures, in activities relating to the remuneration policy, and in the introduction of new products. It worked with the internal audit department in the performance of audits in the exchange of information and findings.

Internal Audit

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.

The internal audit department operates in accordance with the ZBan-2, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors and the Code of Internal Auditing Principles. The activity of the internal audit department and the procedures of internal auditing are set out in the rules of procedure of internal auditing and in the internal auditing manual.

The aim of the work of the internal audit department is to provide independent and impartial assessments on the effectiveness and quality of risk management, internal controls and internal governance arrangements, and thereby contribute to the Bank's improved functioning and achievement of objectives. The department pursues its mission through internal audits and the provision of advice, focusing on the highest-risk areas that it defines within the scope of planning the work of the department. The annual and strategic plans are based on the Bank's risk profile, the internal methodology of audit planning, and the regulator's requirements for the mandatory auditing of individual areas of the Bank's operations, with the aim of auditing the highest-risk areas of the Bank's operations and periodically covering low-risk or as-yet-unaudited areas. The two plans are adopted by the management board, subject to the supervisory board's approval.

The annual plan for 2020 envisaged eleven primarily comprehensive and complex audits, of which ten, together with two extraordinary audits, were completed during 2020 or at the beginning of 2021, while one audit is in the final phase and two audits were brought forward to the annual plan for the 2021 financial year.

The internal audit department also devoted considerable attention to progress in the implementation of recommendations. In addition to regular audits and the follow-up of the implementation of recommendations, in 2020 the internal audit department also provided advice regarding the development of banking products in the scope of the funds of funds and financial engineering, informal advice covering a broad range of content and coordination with external institutions. An external assessment of the quality of the work of the internal audit department was also carried out during the first quarter of 2020. During that assessment, it was confirmed that the department functioned in accordance with the International Standards for the Professional Practice of Internal Auditing and other regulations.

The internal audit department reports on an annual and quarterly basis to the Bank's management board, audit committee and supervisory board regarding its work, its findings and the follow-up of recommendations. The Bank's management board also discusses all reports on individual internal audits that have been carried out.

The internal audit department had three employees in 2020, one of whom was a part-time employee. All employees hold the requisite licences and professional titles to perform internal auditing tasks.

Information on point 4 of the fifth paragraph of Article 70 of the ZGD-1 with regard to the information referred to in points 3, 4, 6, 8 and 9 of the sixth paragraph of the aforementioned article

The Republic of Slovenia is the sole shareholder in SID Bank pursuant to Article 4 of the ZSIRB.

Company rules on the appointment and replacement of members of management and supervisory bodies, and changes to the articles of association

Members of the Bank's management body may be appointed/dismissed in accordance with the ZSIRB, ZBan-2, the ZGD-1 and the articles of association.

The process of selecting members of the management body is set out in the policy on the selection of management board members and the policy on the selection of supervisory board members. Amendments made to the ZSIRB in 2020 deleted the provision in Article 18 that defined additional conditions for members of the Bank's management board.

There were no changes to the management board during 2020, while changes in the composition of the supervisory board are described in information regarding the composition of the supervisory body.

There were no changes to SID Bank's valid articles of association in 2020, which means that the articles of association approved at the Bank's general meeting held on 6 July 2016, when they were adopted by the Republic of Slovenia, as sole shareholder, remain in force.

Information about the work and key powers of the general meeting, and description of shareholder rights and the exercise thereof

SID Bank's general meeting is convened by the management board, and may also be convened by the supervisory board. The general meeting is convened in accordance with the law and the articles of association by means of registered mail sent to the sole shareholder. The support material for the general meeting is sent to the shareholder at the same time as the convening notice. On the day that the registered mail is sent, SID Bank publishes all the notices and information required by the ZGD-1 on its website. In accordance with Article 4 of the ZSIRB, the voting rights and other rights of the sole shareholder are exercised by the Republic of Slovenia, which in accordance with the Slovenian Sovereign Holding Act authorises Slovenski državni holding d.d. to act in the name and on behalf of the sole shareholder pursuant to law. When the ZGD-1 gives the sole shareholder the right to use electronic means, it may submit proposals, authorisations and other documents to SID Bank by sending an e-mail to the address stated in the convocation notice. The general meeting is convened at least once a year, after the end of the financial year, at SID Bank's headquarters, at the registered office of the sole shareholder, or at a place designated by the sole shareholder. The exact time and date of the general meeting are determined when it is convened.

In accordance with the Act Determining the Intervention Measures to Mitigate the Consequences of the Second Wave of the COVID-19 Epidemic (ZIUOPDVE), the management board may decide, with the supervisory board's consent, to hold a general meeting electronically (Article 72 of the ZIUOPDVE) or virtually (Article 73 of the ZIUOPDVE) during the COVID-19 epidemic.

The general meeting's powers are set out by the ZGD-1 and the ZBan-2.

Information on the composition and functioning of management and supervisory bodies and their committees

SID Bank has a two-tier system of governance: the business is directed by the management board, while its functioning is supervised by the supervisory board.

Supervisory board

The supervisory board monitors and supervises the management and operations of the Bank. 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 ZGD-1, the ZBan-2 and the ZSIRB.

The supervisory board's role includes approving the Bank's strategic policy, reviewing the annual reports and other financial reports and formulating an opinion regarding those reports, explaining to the general meeting its opinion regarding the annual report by the internal audit department and its opinion of the annual report by the management board, approving the 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 giving its consent to the management board in relation to the Bank's business policy, financial plan, remuneration policy, the organisation of the system of internal controls, the internal audit department's annual work programme, and the compliance department's annual work programme. The supervisory board is also responsible for issuing prior consent for the conclusion of financing, borrowing and capital investment transactions. The supervisory board has appointed an audit committee, a risk management committee and a nomination and remuneration committee as advisory bodies. Each committee's tasks and powers are set out in its own rules of procedure.

In accordance with the ZSIRB, the supervisory board comprises seven members who are appointed by the government. Members of the supervisory board are appointed to a five-year term of office. The procedure and conditions for the selection of suitable members are set out in the ZSIRB and ZBan-2, and in the policy on the selection of supervisory board members. The policy sets out the method for the selection of candidates who possess the relevant knowledge, skills and experience to supervise and monitor the direction of the Bank's business, and the requisite reputation, and ensures that the supervisory board as a whole possesses the relevant knowledge, skills and experience required for the in-depth understanding of SID Bank's activities and the risks to which it is exposed. Diversity is encouraged as much as possible in terms of knowledge, skills and experience, and also with regard to other circumstances, in particular gender, age, qualifications, social status and the other traits of candidates. The policy states that the supervisory board must comprise at least one member with knowledge and experience in the areas of (i) financial risk management, (ii) the supervision and auditing of SID Bank's activities, (iii) commercial law and corporate governance, and (iv) management and remuneration, and at least two members with specific banking knowledge and several years of experience in banking.

SID Bank has put in place a process for assessing the suitability of members of the management body. In the scope of the regular annual assessment of the management body, the supervisory board's work was assessed as suitable, both in terms of individual members and the body as a whole, irrespective of its incomplete composition in accordance with the ZSIRB. It was established during the assessment procedure that the composition of the supervisory board ensures diversity according to the majority of the criteria referred to in the policy on the selection of supervisory board members. However, the composition lacks balance in terms of gender and, partially, in terms of diverse knowledge and experience in the areas of law, supervision and auditing. As a result, increased focus was placed on these criteria when determining the profiles of supervisory board members to be recruited, which are defined by the nomination and remuneration committee in the procedure for appointing new supervisory board members.

All three committees of the supervisory board (the audit committee, the risk committee and the nomination and remuneration committee) are of the appropriate size and composition, while committee members possess the requisite knowledge and experience to perform the tasks of individual committees that are determined by the law. Those committees thus did not use external advisors or experts in 2020.

The composition of SID Bank's supervisory board underwent several changes in 2020. Anton Rop was appointed new member of the supervisory board in January 2020. His function as member was then terminated on 16 June 2020 based on Mr Rop's resignation. The Slovenian government recalled member of the supervisory board Monika Pintar Mesarič on 10 September 2020 and appointed three new members: Igor Masten, Sašo Polanec and Janez Tomšič.

The composition of the supervisory board was as follows as at 31 December 2020: Marjan Divjak (chair), Janez Tomšič (deputy-chair), Leo Knez, Zlatko Vili Hohnjec, Igor Masten, Sašo Polanec and Marko Tišma as members.

Composition of the supervisory board as at 31 December 2020:

First name and surname	Date of appointment	Duration of mandate	Change	Function
Marjan Divjak	18 May 2017	5 years	2022	Chair
Janez Tomšič	11 September 2020	5 years	2025	Deputy-chair
Zlatko Vili Hohnjec	18 May 2017	5 years	2022	Member
Leo Knez	22 February 2018	5 years	2023	Member
Igor Masten	11 September 2020	5 years	2025	Member
Sašo Polanec	11 September 2020	5 years	2025	Member
Marko Tišma	28 July 2016	5 years	2021	Member

The supervisory board met at fifteen regular and eight correspondence sessions in 2020.

Supervisory board's nomination and remuneration committee

The nomination and remuneration committee is authorised and responsible for the performance of duties relating to the appointment of management board and supervisory board members and the remuneration system. Its tasks are primarily the identification and recommendation of candidates for membership of the management board to the supervisory board with a definition of the tasks and conditions for a particular appointment, the assessment of the composition and performance of the management board, the knowledge, skills and experience of individual members of the management board and supervisory board or both bodies as a whole, and the assessment of the appropriateness of remuneration policies and practices and the drafting of proposed decisions of the management body related to remuneration, including those that impact risks and the Bank's risk management.

The committee met at ten ordinary sessions in 2020, and held two correspondence sessions.

As at 31 December 2020 the committee comprised Sašo Polanec (chair), Janez Tomšič (deputy-chair), and Marjan Divjak and Zlatko Vili Hohnjec (members).

Supervisory board's audit committee

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

The committee held seven ordinary sessions and one correspondence session in 2020.

As at 31 December 2020 the committee comprised Leo Knez (chair), Zlatko Vili Hohnjec (deputy-chair) and Marko Tišma (member).

Supervisory board's risk committee

Within the scope of its powers, the risk committee primarily provides advice regarding the Bank's general risk appetite and risk management strategy, controls the implementation of strategies, reviews stress and other scenarios and their impact on the risk profile, assists in the implementation of supervision of senior management with regard to the risk management strategy, and verifies whether risks are taken into account in incentives within the framework of the remuneration system and whether the prices of the Bank's products are compatible with its business model and risk management strategy.

The risk committee met at nine ordinary sessions and one correspondence session in 2020.

As at 31 December 2020 the committee comprises Igor Masten (chair), Leo Knez (deputy-chair), and Marjan Divjak and Marko Tišma (members).

Management board

SID Bank's business is 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. In accordance with the articles of association, the management board has a maximum of three members, one of whom is appointed president, with the precise number of management board members being determined by the supervisory board.

The management board directs the business independently and at its own liability. Its activity is governed by the rules of procedure of the management board. The management board generally meets on a weekly basis, when matters from all areas of SID Bank's operations are discussed. The management board regularly briefs the supervisory board on the most important issues in the Bank's operations, on its business policy, its financial position and other significant issues relating to its activity.

In 2020 the management board comprised Sibil Svilan as president and Goran Katušin as member. They both meet conditions with regard to knowledge, skills and experience and other criteria, while the management board as a whole meets the collective suitability condition, meaning that the two management board members satisfy all criteria for a positive suitability assessment, together and without the need for additional training. There was no need to formulate new assessments of the suitability of the management board in 2020, as no circumstances arose in connection with the board members that would require a new individual suitability assessment for a particular management board member. There was no change to the composition of the management board in 2020, and no change in the powers of the members of the management board, and no circumstances arose in connection with either member of the management board. In the annual assessment of the management body, it was found that the two members of the management board are individually and collectively suitable for performing their functions.

The management board transferred certain decision-making rights to collective decision-making bodies, such as the credit committee, the government operations committee, the distressed investment management committee and the asset-liability and liquidity management committee. The main powers and responsibilities and the work methods of the committees are set out in the committees' rules of procedure. In addition, the management board transferred certain decision-making powers with regard to transactions to individual employees at SID Bank on the basis of the rulebook on authorisations.

Credit committee

The credit committee decides on approvals and changes to terms of investment operations that do not constitute refinancing or restructuring due to a borrower's financial difficulties, on the classification of individual investments, on limits of exposure to an individual customer and on the documentation when introducing new or changing existing financing programmes or individual products. The credit committee approves the conditions and procedures for selecting financial intermediaries for financing from the funds of funds, and the related business plans, and makes decisions regarding financial transactions and contracts on participation. The credit committee is also responsible for capital growth investment programmes for corporate equity financing. The credit committee monitors individual exposures and the quality of the credit portfolio on the basis of reports by individual organisational units, and also decides on the transfer of investments with increased credit risk to distressed investments, and on the termination and cancellation of investment operations. The committee comprises five members, who meet at weekly sessions.

Asset-liability and liquidity management committee

Within the scope of its powers of managing the Bank's liquidity, the asset-liability and liquidity management committee manages liquidity risk and structural liquidity. To that end, it makes decisions regarding the raising of funding and placement of assets on the money and capital markets in Slovenia and in the rest of the world, and regarding the use of the Bank of Slovenia and ECB instruments, and approves and supervises the exchange rate and interest rate policy. The committee is also responsible for managing the free assets of financial instruments funded via the European structural and investment funds, and the management of assets earmarked for corporate equity financing.

In the area of asset-liability management the committee sets out, modifies and monitors the implementation of the strategy and policy of the balance sheet structure, defines and monitors the implementation of the pricing, liquidity, interest rate and exchange rate policy, decides on proposals regarding asset-liability risk management, approves the financing programme and products relating to treasury operations and changes thereto, monitors the Bank's capital adequacy, approves the treasury investment policy, and monitors and discusses the stress test results. The committee also manages liquidity and manages assets and liabilities (balance sheet) in relation to SID Bank's operations under Republic of Slovenia authorisation, primarily managing liquidity risk and structural liquidity, and in the area of asset-liability management adopts the policy for contingency reserve investments and assesses the impact of new programmes of insurance up to the amount of contingency reserves.

This committee has the most members of all the Bank's committees with nine. Regular sessions focusing on liquidity management are held weekly, while asset-liability management is discussed monthly.

Government operations committee

The purpose of the special government operations committee is the consistent segregation of SID Bank's ordinary operations from its operations on behalf of the Republic of Slovenia. The committee decides on the introduction of new and changes to existing programmes, approvals and changes to transactions that SID Bank concludes on behalf of the Republic of Slovenia, including the financing of international commercial transactions from contingency reserves, insurance and reinsurance, guarantee schemes, and financial instruments funded by European structural and investment funds, and on matters related to these transactions.

The government operations committee has six members, and meets at regular sessions at least once a week.

Distressed investment management committee

The distressed investment management committee, which has five members, manages problematic claims with the status of non-performing investment, where it makes decisions regarding approvals and changes to the terms of investment operations and financial restructuring plans, and regarding all matters associated with non-performing investments (also regarding the enforcement of rights in insolvency proceedings). The committee typically meets once a week.

Committees

Committee for the assessment of the suitability of members of the management body

The committee for the assessment of the suitability of members of the management body has three members, who were appointed by the management board, subject to the prior approval of the supervisory board. The committee is autonomous in its work and independent of the management board and supervisory board. The committee functions with two external members with knowledge and experience in banking and financial services, and in recruitment, psychology and related professional fields, and a third member who is an employee, namely the director of the compliance department, for whom the management board ensures the appropriate protection against potential retaliatory measures.

The committee for the assessment of the suitability of members of the management body and the supervisory board’s nomination and remuneration committee carry out the fit and proper assessment process for the members of the management body.

Members of the management body are subject to assessment by the two committees before their appointment or the commencement of their function, and if new circumstances arise in connection with a particular member of the management body during their term of office.

The head of the compliance department is also authorised to draw up annual assessments of the management body. Assessments are then discussed by the supervisory board’s nomination and remuneration committee, which formulates a position regarding those assessments.

The fit and proper assessment process for the selection of members of SID Bank's management body complies with the applicable banking legislation.[5] In addition to the selection policy for members of SID Bank's management body, the procedure also takes into account specific elements deriving from the ZSIRB, the Slovenian Corporate Governance Code and the Corporate Governance Code for Companies with Capital Assets of the State, and the selection policy for members of the supervisory board or management board.

In 2020 the committee for the assessment of suitability of members of the management body issued five comprehensive and two partial fit and proper assessments of candidates for members of SID Bank's supervisory board.

[5]The ZBan-2, the Decision on the management system, management body and internal capital adequacy assessment process for banks and savings institutions, other Bank of Slovenia regulations, EBA and ESMA regulations, most notably the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12) and the EBA Guidelines on internal governance (EBA/GL/2017/11) are taken into account.

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 makes decisions regarding all insurance operations that exceed EUR 5 million, or whenever SID Bank itself is involved in a transaction. It also holds decisive powers 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 insurance terms for individual insurance policies and other transactions;
- the management of the contingency reserves and the risks taken up in insurance operations;
- the conclusion of agreements and relations with financial institutions and other institutions;
- the reprogramming, recovery and liquidation of claims;
- other operations in connection with insurance under government authorisation.

The international trade promotion commission regularly monitors the Bank's operations in areas regulated by the ZZFMGP, which includes the discussion of performance reports and the submission of an opinion to the Ministry of Finance regarding the Bank's report on the exercising of authorisations under the ZZFMGP.

The commission met at seven regular sessions in 2020, with the majority of those sessions organised virtually. It also made decisions via 32 correspondence sessions in 2020.

The most frequent topic of discussion at sessions in 2020 was the insurance and reinsurance business. The majority of proposals were for the reinsurance of short-term claims, the number of which was up significantly. The reason for the increase were amended reinsurance contracts concluded with Coface PKZ and Zavarovalnica Triglav as the result of measures to combat the COVID-19 pandemic.

Also discussed at commission sessions were medium-term insurance transactions in connection with the financing of projects in Croatia, Ukraine, Belarus and Africa. The commission also made decisions regarding other transactions in connection with the internationalisation of Slovenian exporters, in particular regarding projects in Southeast Europe, Russia, Belarus and other Eastern Europe countries. In connection with the long-term export transactions of Slovenian companies on EU markets, the commission also adopted decisions regarding insurance for guarantees requested by contracting authorities.

In addition to transactions, the commission also discussed the revised policy of the Slovenian component, and made significant changes in terms of easing the conditions of quantitative elements in the assessment of the suitability of an insured party for insurance, and made qualitative elements more important. The policy thus became considerably more attractive for exporters and comparable with other export agencies. In this way, the commission demonstrated its flexibility in the search for solutions that contribute to the promotion of Slovenian exports in the context of globalisation. In order to achieve global competitiveness, Slovenian companies must operate under the same conditions as their foreign competitors.

At its sessions, the commission also discussed and approved revised insurance terms and new product programmes intended for Slovenian exporters who have suffered a loss of business due to the COVID-19 crisis. These related to the insurance of guarantees and export preparation loans in the area of insuring medium-term export transactions, and to the assumption of the portfolio of domestic claims on the private insurers market in the area of insuring short-term transactions. In this context, it discussed and agreed with the conclusion of annexes to reinsurance contracts between SID Bank and commercial insurance companies for the reinsurance of short-term claims.

The commission functions with six regular members, and comprises one representative from the Ministry of Finance who has a decisive role (right of veto), two members from the Ministry of Economic Development and Technology, one representative from the Ministry of Foreign Affairs, one representative from the Chamber of Commerce and Industry and one representative from the Bank Association of Slovenia. As at 31 December 2020 the commission comprised Franc Stanonik (chair), Matej Čepeljnik (deputy-chair), and Iztok Pustatičnik, Iztok Grmek, Stanislava Zadravec Caprirolo and Jernej Salecl (members). Iztok Pustatičnik and Jernej Salecl replaced Jože Renar and Jernej Tovšak in 2020.

Description of the diversity policy

SID Bank has transposed requirements regarding the composition of the management body in terms of knowledge, skills, experience and gender balance into its bylaws, including the policy on the selection of supervisory board members and the policy on the selection of management board members. Both policies stipulate that in the event of the availability of several diverse candidates who meet the conditions of appointment, whose individual suitability assessments are equally good, and who would also ensure that the collective suitability of the management body is satisfied, precedence is given to the candidate who would bring the greatest diversity to the membership of the management body.

The gender diversity criterion was not satisfied in full in 2020, irrespective of the definition of the criteria in the profile of members of the management body, while other criteria relating to professional experience, skills and competencies, and age were satisfied.

Ljubljana, 18 March 2021

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan, M. Sc.
President

Social responsibility

Work of SID Bank

In its main mission as a development bank, SID Bank pursues the objectives of broader social responsibility and focuses on the long-term well-being of the Slovenian economy, society and the local environment. It develops and implements promotional and development programmes and financial services in areas where market gaps have been identified, i.e. where commercial financial institutions do not function to a sufficient extent or not at all, regardless of whether the beneficiaries are long-term development projects or SMEs.

In its operation, SID Bank also plays an important counter-cyclical role, as is evident from its operations in 2020. The macroeconomic conditions in which the economy functions below its full potential and employment capacity are one form of market gap, and the gap in financing was very high in certain segments in 2020.

SID Bank’s activities focus on preventing the distortion of the market and competition with other financial institutions. SID Bank may function through three distribution channels: via private financial institutions, via public promotional institutions or directly vis-à-vis final beneficiaries. By providing financial services that supplement the market, SID Bank contributes to economic growth and the well-being of the population, and strives for the sustainable development of Slovenia. The Bank is also aware of its special position with respect to the potential distortion of free competition, and therefore implements measures that prevent it from competing with other commercial and financial institutions on the market in the performance of its activities.

Role of SID Bank

Given its size and the scope of its activities, SID Bank plays the role of the central Slovenian institution for the financial promotion of the effective achievement of basic development objectives. Its activities are based on long-term development policies of Slovenia and the EU.

SID Bank’s role is intermediation in the area of 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 development with a high degree of protection of the environment and habitat, and energy and material efficiency;
- advanced public and economic infrastructure;
- social progress, providing equal opportunities, education and employment; and
- other economic activities that contribute to growth, development and prosperity.

Social benefits

In the scope of its mission and entrusted authorisations, SID Bank, through its activity, contributes to the fulfilment of social objectives that are in line with the key elements of Slovenia's sustainable development: a successful economy, social security and concern for the environment.

By assessing companies over the various developmental stages of operations and providing tailored financial services, SID Bank ensures suitable financing terms and conditions where the market offer proves insufficient. To this end, it encourages the Slovenian economy to take advantage of its opportunities at home and abroad. Special attention is given in particular to SMEs with high development potential. In parallel with 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 changing needs of final beneficiaries, and of commercial banks when they act as intermediaries for SID Bank’s purpose-specific funding.

Effects of SID Bank’s activities

Financing socially beneficial infrastructure projects and target groups in the economy is the basic way in which SID Bank provides support for Slovenia’s sustainable development policies. The changing circumstances as the result of the outbreak of the COVID-19 pandemic have brought the Bank’s intervention and counter-cyclical role into focus. The Bank’s counter-cyclical function can be seen in a significantly higher volume of new loans in 2020 relative to the volume of loans SID Bank usually achieves when the conditions of the economic cycle are balanced. Here it should be emphasised that the purpose of SID Bank’s operations is to achieve not just the aforementioned economic effects, but also other social and environmental effects as the result of the projects that it supports, and the development-promotion and intervention programmes that it implements.

Responsibility to customers

Responsible lending and borrowing

As a member of the Bank Association of Slovenia, SID Bank was among the initiators who formulated the principles of responsible lending for banks operating in Slovenia. These principles represent guidelines and recommendations to fulfil the objective of being responsible to its customers, owners and other stakeholders. In practice, SID Bank has built the concept of responsible lending and borrowing into the internal decision-making process.

The principles of responsible lending, as formulated by the BAS, comprise:

- ethical standards and responsibility to customers;
- knowing customers;
- financing policy;
- financing based on expected cash flows; and
- suitable purpose and conditions of financing.

As a development bank, SID Bank is required to ensure the long-term financial viability of its business model. Because it does not operate with the goal of maximising profitability, it is able to provide more favourable financial terms in its promotional programmes. In accordance with the ZSIRB, SID Bank reinvests the Bank's equity and earmarks all profits for the additional financing of the economy. SID Bank’s role is thus not to support all enterprises that demand loans, but only those that are economically and financially justifiable, and yet include a sustainable development component.

In transactions with customers and in specific projects, special attention is given to the prevention of corruption and money laundering.

Accessibility to services

In 2020 SID Bank again used its products and programmes to pursue the concept of covering key phases in the production chain where market gaps arise. SID Bank also enhances the accessibility of financial services by developing new products and adapting its existing offer.

Due to its public functions, SID Bank pursues the principle of equal access and the equal treatment of all users of its services. To that end, it follows the principle of non-discrimination, meaning the same services under the same conditions for all equally entitled entities, including the appropriate regional distribution of development funds through which it promotes economic and sustainable development.

Promoting the circular and green economy

SID Bank was one of the first to promote the establishment of the circular economy concept in Slovenia. With the introduction of its comprehensive Green Strategy in 2020, it took a new, more decisive step towards promoting the green transformation of the Slovenian economy and increased the role of social responsibility in its operations. In accordance with the Green Strategy, SID Bank functions proactively and systematically prepares itself for new developments in connection with the integration of climate and environmental, social and governance factors (*ESG factors*) in business processes, where its aim is to maintain its leading role in this area in the Slovenian banking environment. It therefore strives to increase its knowledge capital in the area of sustainable financing.

SID Bank is already implementing initiatives aimed at the circular and green economy directly through existing financial programmes and the evaluation of the business models of its customers. In addition to financial soundness, SID Bank's credit assessment of companies also includes the evaluation of elements of the long-term sustainability and viability of their business models, and their compliance with the purposes pursued by SID Bank in the scope of its mandates.

Through its development-promotion programmes, SID Bank addresses the development of a competitive economy, with an emphasis on SMEs, the development of a knowledge society and innovative entrepreneurship, the development of an environment-friendly society, and regional and social development. Via SID Bank's programmes, it is possible to directly finance companies and their investments in projects for energy efficiency, renewables, the renovation of buildings, sustainable transport, and the sustainable handling and recycling of water, waste and other natural resources.

SID Bank assesses the sustainability of a company's business model from five perspectives:
– the long-term resilience of the business model,
– material efficiency,
– concern for the natural environment,
– energy efficiency, and
– innovative/technological breakthroughs.

In the scope of the aforementioned Green Strategy, SID Bank is developing the new concept of the non-financial valuation of companies in terms of ESG factors. This involves a sector-specific assessment of companies in terms of environmental (E), social (S) and governance (G) impacts. The valuation of environmental factors and the assessment of the adaptation strategies of companies serve as the basis for identifying and assessing physical climate risks and risks in connection with the formulation of business models that focus on carbon-free operations.

Interinstitutional cooperation

SID Bank has close contacts and good relations with a number of different international financial institutions, development and commercial banks, and insurance and reinsurance companies. Through the exchange of information and other forms of cooperation, financial institutions mitigate the risks to which they are exposed on a daily basis. In addition, interbank agreements and recommendations that reinforce best practices and the rules and principles of the banking profession contribute to long-term viability, responsible lending, security and liquidity inside and outside the banking sector.

Agreements within the Bank Association of Slovenia and within other domestic and foreign associations of which it is a member are of particular importance for SID Bank. The Bank is also a member of several international associations of financial institutions, including the European Association of Public Banks (EAPB), the European Association of Long-Term Investors (ELTI), the Network of European Financial Institutions for SMEs (NEFI) 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. With the aim of strengthening cooperation with European institutions, SID Bank is also a shareholder in the European Investment Fund (EIF). In the scope of the European Investment Advisory Hub (EIAH), SID Bank functions as a national access point for providing support to investment projects, primarily from the European Fund for Strategic Investments (EFSI).

SID Bank is also a signatory of the Slovenian corporate integrity guidelines, and a founding member of the Slovenian Innovation Hub, a European economic interest grouping where members from commerce, banking and academia and regional and local organisations all work together. The Bank organises now-traditional Knowledge hub events that are intended for improving expertise in the economic and financial spheres.

SID Bank strives for a better tomorrow

Under the auspices of the United Nations, a broad consensus of 191 countries adopted common sustainable development goals. Slovenia is among the signatory countries, while SID Bank is involved as a development institution with a view to a cleaner and more inclusive future. Through its programmes, it strives to achieve those goals, which include protection of the environment, the end to poverty, peace and progress for all of society. The fact that SID Bank operates in accordance with the sustainable development objectives was also recognised by the Morningstar company Sustainalytics, which studied the Bank’s activities during the issue of SID Bank’s green bond. A team of international experts emphasised SID Bank’s major importance in the achievement of progress, in particular with regard to environmental goals, such as affordable and clean energy, sustainable cities and communities, clean water and sanitation, responsible consumption and production, and life on land.

Communication with external audiences

SID Bank's communication with its business partners and the public is in line with its role as a promotional, export and developmental bank that carries out its activities indirectly or in cooperation with financial institutions, and directly. Due to the specific nature of products and services intended for legal entities, the focus of SID Bank’s communication strategy is on direct contact with external stakeholders, i.e. companies, financial intermediaries, and the professional and general public.

Due to the COVID-19 pandemic, maintaining such direct contact in 2020 dictated additional adaptations of communications to the new circumstances, including the enhancement of SID Bank’s call centre and its website as the central communication channel for notifying the public about the range of products and services and SID Bank’s intervention role during the pandemic. The call centre’s four employees provided customers the relevant information regarding the portfolio, and the terms and conditions of direct and indirect financing and insurance. The website was adapted to emphasise the current portfolio. In the context of increased demand for direct financing programmes, communication was upgraded with a digital assistant (*Chatbot*), which facilitated the faster exchange of information and supplemented the telephone communication of the call centre and customer relationship managers.

Similar to the past, SID Bank enhanced contact with the external public through a wide network of special interest associations (Chamber of Commerce and Industry of Slovenia, Chamber of Crafts and Small Business of Slovenia, Slovenian Business Club, etc.), while the Bank’s representatives were actively involved in numerous events at home and abroad, the majority of which were organised in digital form during the year. Bank employees thus attended 43 conferences, roundtables and similar events in 2020 on behalf of the Bank, which in terms of their topics were in line with SID Bank's mission and activities, and with SSH's recommendations.

To mark its joining of the Three Seas Initiative Investment Fund, SID Bank organised a meeting of the fund's high-level executive and management bodies, as well as a virtual conference with the aim of presenting the role, objectives and planned activities of the fund. The conference was attended by representatives of the Three Seas Initiative's development banks, ministries and major Slovenian companies, while the main findings were presented to the general public in the form of a virtual press conference.

SID Bank also communicates with the public regarding its activities and portfolio via press releases, newsletters, interviews, PR articles and advertisements, and through active cooperation with journalists via close to 60 sets of questions from journalists. The aforementioned activities increased the Bank's presence in the media by 34% relative to 2019. That presence is measured via the number of articles about SID Bank.

SID Bank maintains more direct contact with potential and existing customers via regular e-news tailored to a specific target group that informs customers about the latest developments and customised financing programmes, and via communication on social networks such as *LinkedIn* and *Facebook*.

Responsibility to employees

Social responsibility at SID Bank is based on the valid social responsibility policy, which was adopted in the broadest and most comprehensive sense. In addition to SID Bank's core mission – the sustainable development of the Republic of Slovenia – that policy also covers responsibility to customers, employees, society and the environment. The aforementioned policy is a binding document in which the main emphasis is on the participation of all employees in the achievement of objectives in this area.

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

SID Bank actively implements internal measures in the area of social responsibility. These include measures with a direct impact on SID Bank and measures that affect society as a whole. In addition to SID Bank's primary function, measures are also implemented in the area of social responsibility that focus on SID Bank's internal work processes. A project aimed at the detailed inventory and optimisation of all of the Bank's business processes was completed at the beginning of 2020. In the scope of the quality management system, SID Bank carried out regular self-assessment under the proven European model of business excellence developed by the European Foundation for Quality Management (EFQM).

The Bank strives to maintain a positive organisational culture, in particular to foster a participative organisation and mutual respect, to promote teamwork and cooperation, and to nurture feelings of loyalty and commitment. The Bank's corporate governance policy takes into account, *inter alia*, 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, performance assessments and the protection of employees' interests.

Playing an important role in terms of ensuring business ethics is the code of ethics and professional standards, which governs the principles and rules by which SID Bank, its bodies and its employees act in the performance of their work and tasks in relation to customers, other banks, the economic environment and within the SID Bank itself.

In addition to professional standards, the Bank has in place a system for protecting whistleblowers, which is extended to the Bank's own employees and to people working with the Bank.

Internal communications

Effective internal communications are extremely important for the successful and coordinated work of the organisation as a whole. In the case of a specialised activity, such as the one performed by SID Bank, internal communication and an effective flow of information are crucial for maintaining a high level of professionalism and the quality of services.

Various forms of notifying and communicating with employees are in place at the Bank. They include direct communication between management and employees. Internal communication between employees takes place on a daily basis at various levels with contemporary forms of communication, including a regular dialogue that was established between the Bank's senior management and the trade union. All bylaws and rules are available via an internal application, while the lending of technical materials between departments is also possible. Employees are provided news and the opportunity to attend internal and external training courses in the form of an online notice board. The *Cekin* internal newsletter, which summarises the most relevant information, news and events for the previous period, is published periodically.

The Bank promotes a relaxed atmosphere and inclusive relationships that contribute to the fulfilment of SID Bank's values. Gatherings of all employees are organised twice a year: a meeting with refreshments is organised in the spring to celebrate SID Bank’s anniversary, while a similar meeting is organised in December at the conclusion of the financial year.

Department team-building events focus on co-shaping a positive corporate culture at the Bank. Employees can also contribute to a better work environment via the application for proposed improvements, through which each employee can propose improvements that are then decided on by a committee elected for that purpose that also rewards the best innovations.

Concern for employees

SID Bank facilitates flexible working hours, making it easier to achieve work-life balance, in particular by allowing parents with young children to arrange different working hours from other employees. The management board allows employees to occasionally work from home, when the nature of their work allows this and their absence does not impede the organisation of work.

On account of conditions in connection with the COVID-19 pandemic and with the aim of reducing employees’ exposure to infection to the lowest possible level, the Bank followed and consistently implemented in full all measures adopted by the competent institutions in 2020, and adopted a business continuity plan in accordance with banking legislation. That plan sets out conduct and measures in the event of an epidemic.

Special attention is also given to the rights of employees, their health and safety, working conditions, social security, personal and professional development, social dialogue and mutual relationships. Given the extraordinary circumstances, the Bank approved work from home by those employees whose work facilitated this approach. For this reason, the Bank did not record any transmissions of infection between employees.

In the area of employee health and safety, SID Bank organises preliminary, specific-purpose and periodic medical examinations, as well as professional training in the areas of occupational safety and health and fire safety, the organisation of which in 2020 was affected in part by the conditions relating to the COVID-19 pandemic. By regularly monitoring employees’ needs, implementing the recommendations of occupational medicine experts and taking measures to promote health in the workplace, the Bank is working to provide the healthiest possible working conditions and a suitable working environment.

It upholds all applicable legislation and the collective agreement for the banking sector when setting salaries and determining other labour costs for employees. Remuneration for performance and advancement are governed by the company-level collective agreement, which also sets out the terms, conditions and criteria for additionally motivating key staff. In 2020 the Bank continued the practice of paying premiums for voluntary health insurance and supplementary pension insurance for employees.

SID Bank has particular concern for employee development. By upgrading the employee development system, the Bank ensures that the educational and qualifications structure is suitable for its development and its strategic objectives, thereby ensuring that each employee at the Bank has the knowledge, skills and abilities required to perform effectively in their work, with the aim of raising the quality of work of individuals and teams. The incentive-based system of remuneration further helps employees to effectively adapt to changes and challenges within the organisation and in an environment that will present them with sufficient professional challenges in the future. The system of competencies for specific posts ensures quality within the framework of SID Bank's complex functional structure as a development bank.

Supervisors conduct annual development interviews with employees that represent the basis for assessing the development potential of individuals, the definition of key staff members and the formulation 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 implementation of those programmes was limited to some extent in 2020 for objective reasons, but the Bank will continue with such development activities in 2021.

Promoting the acquisition of additional knowledge and skills and their practical use is one of the guidelines of SID Bank's action strategy. A total of 78% of all employees attended various forms of training in 2020. Some education and training programmes were organised online during the year due to conditions in connection with the COVID-19 pandemic.

In the context of internal social responsibility, the Bank promotes different activities that help build the values of the Bank in the everyday life and work of employees. Employees also attend various meetings and roundtables at which they promote the values of sustainable development and ethical conduct as the basis for socially responsible and sustainable banking.

The Bank encourages employees to submit suggestions for improvements to procedures and processes via a well-established system for promoting creativity and handling suggested improvements that encompasses, in particular, communication with employees about the importance of creativity for the viability and development of the Bank, the regular monitoring of achievements in this area, the rewarding of suggestions and the implementation of improvements in practice.

Recruitment was undertaken in line with the annual employment plan in 2020, and in line with guidelines from the action strategy, which are based on a new business model and on the adjustment of recruitment to growth in turnover and the development of new products, the recruitment of experts with specific skills and experience, and the retention of capable and promising employees.

SID Bank hired 29 new employees in 2020, to replace employees who found new challenges outside the Bank or who took a temporary leave of absence, and partly as a response to needs and challenges dictated by new tasks and the increased workload brought by the launch of new products (also as the consequence of the COVID-19 pandemic) and larger projects. SID Bank had 223 employees at the end of the year, of whom 146 were women and 77 were men. The headcount averaged 214 in 2020.

	2020		2019	
Qualification level	Number	Proportion in %	Number	Proportion in %
5 or less	17	7.6	18	9.0
6/1	14	6.3	11	5.5
6/2	49	22.0	43	21.4
7	105	47.1	96	47.8
8/1	32	14.3	27	13.4
8/2	6	2.7	6	3.0
Total	**223**	**100.0**	**201**	**100.0**

SID Bank addresses social responsibility in detail in its social responsibility report, which is drafted annually for the previous calendar year and is available on its website.

SID Bank's strategy

In accordance with the established strategic-operational planning process, which envisages a three-year sliding strategy, SID Bank's medium-term strategic plans were reviewed at the end of 2020. SID Bank's development strategy for the period 2021–2023 was adopted on this basis. Through the regular annual audit of its strategy, SID Bank ensures that the strategic content that allows the Bank to adapt to its external circumstances is up-to-date, and ensures its continued evolution within the framework of the authorisations entrusted to it.

Discussed during the drafting of the strategy were key topics that will affect SID Bank's future operations, while the opportunities and challenges that those topics bring to the Bank's operations were defined. In terms of content, the changing circumstances as the result of the COVID-19 pandemic had the most significant impact on the formulation of the strategy. At the forefront on the one hand is the Bank's intervention and counter-cyclical role, while affecting the financial effects of its operations on the other hand is the expected deterioration in the economic situation. SID Bank's programmes have thus been adapted to the new needs of the economy, government and other stakeholders. Due to the increased volume of new loans, the Bank is also making adjustments to how it raises funding, and to the design and elements of products and processes.

SID Bank's development strategy for the period 2021–2023 pursues two fundamental objectives: a high multiplier and sustainability effects in the economy and society, and own performance that ensures the long-term financial viability of the Bank's operations.

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 market, and thus promotes economic competitiveness, the creation of new quality jobs, social inclusiveness and sustainable development. Through its work within the framework of its authorisations, the fulfilment of its mission and its liaison role, SID Bank is enhancing its major impact on the sustainable development of Slovenia.

The vision of SID Bank's strategic success over the period to 2025 encompasses four aspects. From the aspect of key stakeholders' expectations, within the framework of its mandates, SID Bank will increase the scope of its services while ensuring its ongoing financial viability. It will work proactively in formulating and implementing Slovenia's long-term development strategies, and will act as the main channel for placing government and EU funds with the real sector.

In terms of external relations, SID Bank will play an important liaising role in the framework of Slovenia's system of public promotion. In addition, it will work with development incubators, chambers and educational institutions in the domestic environment. It will also strengthen cooperation with international financial institutions and associations active in development, and will continue to base its operations primarily on cooperation with commercial banks. SID Bank will provide companies with development potential debt and equity financing in all phases of development, and prioritise financial engineering. A major part of activities will focus on project and export financing, and on financing a sustainable infrastructure.

In terms of internal processes and capabilities, SID Bank is driven to provide high-tech support for its business processes, which are capable of adapting quickly to market and internal needs, and represent high-quality support for customers in all of their development phases. The Bank will devote particular attention to monitoring the financial and developmental impact of individual transactions, which will be incorporated into its pricing policy.

In terms of the organisational structure, culture and resources, SID Bank will strive for sound process management and organisation, high job flexibility with highly qualified staff, process automation, and fast and effective decision-making, while ensuring a high level of operational transparency both inwardly and outwardly.

SID Bank strives 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.

Adjustments to the business model

Within the scope of the limitations of the institutional framework, the Bank has adapted its business model to cover the needs of the economy, and the needs of the economic and development policy in accordance with the expectations of stakeholders. Major and rapid changes in the environment dictate the performance of an intervention role, and the simultaneous strengthening of the Bank's development-promotional role after the rebooting of the economy.

The changing circumstances as the result of the COVID-19 pandemic require additional adaptations to activities. At the forefront on the one hand is the Bank's intervention and counter-cyclical role, while SID Bank strives in all financing programmes for the achievement of major development effects and contributes to the sustainable transformation of the economy on the other. The counter-cyclical role of the Bank is reflected in a significantly higher volume of new loans, while programmes are adapted to the new needs of the economy, government and other stakeholders. Due to the increased volume of new loans, the Bank is securing new financial sources to fund those loans, in the context of the accelerated development of adapted financing programmes and the optimisation of internal processes.

In the scope of its intervention role and with the aim of mitigating the consequences of the COVID-19 pandemic, SID Bank adapted the conditions and scope of existing programmes in 2020 and introduced new programmes for the direct financing of current operations and investments in RDI, which will continue in 2021 as financial engineering measures, FI 2014–2020 Fund of Funds financial instruments and programmes from general sources. SID Bank's adapted indirect financing products will also be implemented with the aim of addressing the liquidity needs of companies to mitigate the consequences of the COVID-19 pandemic on the Slovenian economy.

In the scope of the new COVID-19 Fund of Funds in the amount of EUR 65 million, which was established and is managed by SID Bank, financial instruments are provided as measures for an effective response to the consequences of the COVID-19 pandemic.

SID Bank also functions as an intervention institution in the area of export credit insurance with its upgraded range of programmes. Supplier credit insurance products and insurance against supply chain risks were updated in 2020.

In accordance with the authorisation it received from the Republic of Slovenia under Article 65 of ZIUZEOP, in 2020 SID Bank began executing all transactions in the name and on behalf of the government in connection with the monitoring of Banks' reports and the use of the guarantee quota, periodic reporting to the ministry responsible for finance, the liquidation of guarantees, and monitoring and implementation of all measures necessary for the enforcement of recourse receivables. Also, in accordance with the authorisation it received from the Republic of Slovenia under the ZDLGPE, in 2020 SID Bank began executing all transactions in the name and on behalf of the government in connection with the formal review of banks' requests for the allocation of Slovenian government guarantees, the monitoring of Banks' reports and the use of the guarantee quota, periodic reporting to the ministry responsible for finance, the liquidation of guarantees, and the monitoring and implementation of all necessary measures for enforcement of recourse receivables.

Policies in 2021

In 2021 SID Bank will implement activities for the introduction of products aimed at the inclusion of commercial banks in the co-take-up, sharing or partial coverage of risks, as well as other products. In connection with the new Next Generation EU European recovery and resilience package and the updated and enhanced draft multiannual financial framework for the period 2021–2027, SID Bank will strengthen activities for inclusion in the next financial perspective framework as one of the key pillars of the functioning of that framework in the next strategic period.

SID Bank will further enhance its activities in the monitoring and management of environmental risks. It will continue to function proactively and in line with regulatory trends, and to systematically prepare itself for new developments in connection with the integration of climate and ESG factors in business processes and products. The management of climate and other environmental risks is shifting to the very core of the Bank's operations and business processes. SID Bank will invest in technology, data and employees, which will increase its knowledge capital in the area of sustainable financing. It will thus define more clearly its role as the leading bank in the promotion and financing of the transition to a sustainable economy.

Operating guidelines in 2021 will require the further adaptation of internal processes in such a way that marketing departments will focus increasingly on direct communication with customers and the conclusion of (new) transactions, and on more active communication with financial intermediaries with the aim of identifying and addressing their needs and expectations. SID Bank will continue with the gradual digitalisation of its operations. With regard to upgrading information support, the Bank's strategy envisages the effective implementation of a new core system and the development of supplementary IT support for processes. The result will be simple and digitalised lending and insurance processes.

Risk management

General

The main risks to which SID Bank is exposed are credit risk, interest rate risk, liquidity risk, profitability risk, currency risk, operational risk, strategic risk, capital risk and reputation risk. The risk management process additionally takes account of the specific attributes of the implementation of promotional and development tasks and services of importance to Slovenia's development, and the 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.

The internal governance system at SID Bank is based on:
– a clear organisational structure with precisely defined, transparent and consistent internal relations with regard to responsibility that facilitates effective communication and cooperation at all organisational levels, including the adequate upward and downward flow of information;
– an effective risk management process that includes identifying, measuring or assessing, managing and monitoring risks, and internal and external reporting of risks;
– adequate internal control mechanisms that include appropriate administrative and accounting procedures; and
– suitable policies and practices of remuneration for categories of employees who have a major impact on the Bank's risk profile.

Organisational aspects of the risk management process

The risk management process is established within the entire organisational structure and processes at SID Bank in a way that allows for business objectives to be met while operations remain secure and compliant with regulations. The key objective during the implementation of risk management measures is to achieve the proper risk awareness of employees at all levels of the Bank's operations which, through the actions of employees, their attitude to risks and their proposals for additional internal control functions, is reflected in decisions regarding the take-up and management of risks at the level of the Bank's daily activities. The Bank thus promotes and strengthens the risk management culture and the level of the Bank's standards and values relating to the awareness of its risks.

Risk identification begins in commercial organisational units, and continues with the measurement and assessment of risks and the formulation of risk management measures in organisational units segregated from the commercial units, and proceeds all the way up to the management board, thereby ensuring the independence of the risk management function.

Notwithstanding the independence of the risk management function, the management body (management board and supervisory board) is authorised and responsible for balancing the Bank's business objectives and business strategy with the strategy and policies for taking up and managing risk, and for ensuring relatively effective internal governance arrangements taking into account the nature, scale and complexity of the risks inherent in the Bank's business model. SID Bank's management body is regularly informed of and discusses all types of identified risk to which the Bank is exposed. At the same time, it pursues and performs management and supervision through the introduction and implementation of comprehensive risk management systems in the Bank's operations, including the consideration of specific development risks, in accordance with the long-term governance objectives and the fundamental principles of SID Bank's activity. The management board and supervisory board are responsible for adopting the risk profile assessment, determining risk appetite, regularly reviewing and approving the strategy and policy for taking up and managing the risks to which the Bank is or could be exposed in its operations, including risks from the macroeconomic environment in which the Bank operates, taking into account the current credit and business cycle. Once a year, the management body approves the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).

SID Bank's management board appropriately transfers certain risk management powers to the risk management function, other organisational units and the Bank's decision-making bodies.

The asset-liability and liquidity management committee thus guides, supervises and monitors risk management at the aggregate level of the Bank. It is responsible for managing liquidity and managing assets and liabilities in order to properly manage interest rate risk, market risk, operational risk, capital risk and profitability risk, as well as other risks, including the treatment of credit risk and various aspects of concentration of the entire credit portfolio of SID Bank, taking into account the Bank’s business strategy and changes to individual categories of the Bank’s balance sheet within ratios that are normal for comparable development banks. In addition, it is responsible for liquidity and asset-liability management as it relates to SID Bank’s operations under Republic of Slovenia authorisation.

The credit committee is responsible for the management of credit risk for transactions in the name and on behalf of SID Bank, primarily by making decisions on proposals regarding individual transactions that affect exposure to credit risk. The committee monitors individual exposures and the quality of the credit portfolio and makes decisions regarding proposals to assign distressed investment status and the classification of individual investments and groups of connected clients. It is also responsible for approving and modifying documentation during the introduction of new financing programmes and/or individual products, and during the modification of existing programmes and products.

The distressed investment management committee is responsible for the management of non-performing exposures that the credit committee classifies as distressed investments, measures for the forbearance of exposures and for the cancellation and termination of an investment transaction due to financial difficulties or other breaches of contractual commitments by a debtor.

As a mandatory function of the Bank's internal controls, the risk management function is organised within the risk management department, which is directly accountable to the Bank's management board, and is segregated in organisational terms from the commercial units that take up risks and from other organisational units that participate in the risk management process. The risk management department is responsible for drafting the strategy and policies for taking up and managing the risks to which SID Bank is exposed in its operations. It is also responsible for drafting the relevant methodology and conducting the risk profile assessment, calculating the internal capital requirement and internal capital adequacy, drafting the plan of activities for the management of individual risks, assessing outsourcing risk and introducing new products, and, in conjunction with the treasury department, implementing the internal liquidity adequacy assessment process. The risk management department is also responsible for the drafting of external and internal reports in order to supervise, monitor and inform the Bank of all types of risks at the Bank's aggregate level, while not being directly involved in the credit process and in the assessment of individual loan transactions. The director of the risk management department reports directly and independently to the Bank’s management board and the supervisory board’s risk committee on all material risks and circumstances that affect or could affect the Bank’s risk profile. The director is also the head of the risk management function in accordance with the Banking Act and, in the event of specific risk developments, has direct access to the supervisory board to enable him/her to express potential doubts or submit warnings.

SID Bank has also put in place two other mandatory internal control functions. The internal audit department regularly, independently and comprehensively audits the functioning of internal controls and the implementation of the adopted risk management measures, provides recommendations to improve the system of internal controls and risk management procedures, and reports quarterly to the supervisory board. The compliance department, which includes the information security function, identifies, assesses and monitors the compliance risks to which SID Bank is exposed in its operations, and regularly reports its findings to the Bank's management board and supervisory board.

A major role in the risk management process is also played by the executive director for the assessment and monitoring of credit risk and IT, who is included in the credit process within the scope of assessing and monitoring credit risk at the individual exposure level and within the process of managing non-performing investments. In addition, he/she guides, coordinates and supervises the work of organisational units and directors, who are directly accountable to him/her and fall within the context of internal controls in the risk management process.

SID Bank's credit analysis department is responsible for the measurement and assessment of credit risks in connection with individual customers and groups of connected clients, the assessment of investment projects that are not under the authority of the project and export financing department, and the assessment of their economic justification, the assessment of acceptability and the definition of the terms under which new investments are funded, the definition of financial commitments and cooperation in the oversight and implementation of monitoring in accordance with the internal instructions within the context of the credit process. The department also plays an important role in the identification of exposure to increased credit risk (early warning system), as so-called dynamic credit ratings are updated automatically every day from external data sources (e.g. blocks of accounts or delays at other banks, failure to pay tax liabilities, etc.), and informs other competent departments.

The project and export financing department assesses projects that envisage the long-term financing of the public infrastructure, the projects of strategic companies that carry out important infrastructure tasks for the government and hold a natural monopoly, and investments of significant undertakings that are also responsible for major economic development and play a significant role in linking companies in supply chains and in the internationalisation of the corporate sector in accordance with the criteria for the classification of capital investments of the state.

The monitoring of financing operations department carries out control activities in the credit process, the documentary and data monitoring of financing operations and the review of collateral, verification of terms for drawdown and the monitoring of debtors. It is also responsible for the compilation of watch lists for the early detection of exposures with increased credit risk (early warning system), the monitoring of credit protection and the in-depth monitoring of debtors.

The distressed investment management department plays a key role in managing non-performing and forborne exposures. It is responsible for the management of non-performing exposures that the credit committee classified as distressed investments, and for proposing solutions to prevent and minimise potential losses.

The bank-office and payments department carries out the daily monitoring of currency risk, liquidity risk and credit risk in treasury operations in accordance with internally set limits, and makes payments for SID Bank's needs and carries out operations under the authorisation of the Republic of Slovenia. It also participates in groups for the monitoring of loans under guarantee schemes and keeps analytical records of financing, borrowing and treasury operations.

Essential features of risk take-up and management

SID Bank takes up risk within the scope of the adopted overall risk appetite that it is still willing to take up in order to achieve its business objectives, strategies and plans, having regard for the Bank's risk absorption capacity, its strategies and policies for the take-up and management of risks, and its capital, liquidity and remuneration policies. In keeping with the mandates of a development bank, the risk appetite is higher than at other commercial banks, as SID Bank operates in the realm of market gaps. The risk appetite is approved on an annual basis by the management board and supervisory board (which together comprise the management body) when adopting the business strategy, business policy and risk management policy within the scope of SID Bank's annual operational plan. Regular monitoring of risk appetite indicators is provided for on SID Bank’s management body.

In the area of risk management, SID Bank has in place a strategy and seven policies on the take-up and management of risks that define the procedures for identifying, measuring or assessing, managing and monitoring all types of risks to which the Bank is or could be exposed. These documents take into account the applicable legislation and regulations governing risk management and SID Bank’s special features proceeding from its status as an authorised institution under the ZSIRB. The risk management strategy and risk take-up and management policies are updated at least once a year, taking into account the appropriate compliance of the Bank’s business objectives and business strategy with risk take-up and management strategy and policies.

The Bank assesses the risk profile on an annual basis, in a broad assessment of risk areas, business processes and the control environment. The risk profile is a tool for the comprehensive risk management process, in terms of the Bank’s governance, the management of financial risks and the organisation of business processes. To ensure a comprehensive and comparable overview of risks and the control environment by individual business process, the risk profile serves as the fundamental basis for the planning of internal auditing and the compliance function, and serves as the basis of the internal capital adequacy assessment process. In addition, the Bank also conducts stress tests on the basis of its own scenarios and scenarios submitted by the supervisor. On the basis of the results of these tests, the Bank is able to define in advance in a timely manner those areas where it is most vulnerable, and to mitigate risks and improve its performance by means of appropriate measures.

SID Bank uses a standardised approach for calculating minimum capital requirements for credit risk and a basic indicator approach for operational risk. SID Bank has no trading book. SID Bank’s exposure to currency risk is low and generally does not exceed the prescribed regulatory limit for the calculation of the capital requirement for currency risk.

The remuneration of employees who in terms of their powers or work tasks and activities can have a material impact on the Bank’s risk profile is set in such a way that it does not encourage employees to irresponsibly take disproportionately large risks or risks that exceed the Bank’s risk absorption capacity.

Management of and exposure to risks in 2020 and view to the future

SID Bank withstood many challenges in 2020, as the outbreak of the COVID-19 pandemic forced it to transition quickly from a development to an intervention and counter-cyclical role, and to respond quickly to the changing needs of the economy. Thus, during the first quarter of 2020, the Bank offered the economy adapted existing programmes for quick liquidity and other financing. The Bank also developed new financing programmes, established two new guarantee schemes and new insurance programmes for non-marketable risks with the aim of providing prompt assistance to the economy.

The conditions required a great deal of direct intervention financing, resulting in a 20.8% increase in total assets relative to the previous year, with total assets standing at EUR 2.9 billion at the end of 2020. The value of the credit portfolio, measured at amortised cost, was EUR 1.9 billion at the end of 2020, while the value of the insurance portfolio, in the scope of operations on behalf of the state, was EUR 1.8 billion. The structure of loans shifted in favour of the non-banking sector over the banking sector. Through its adapted programmes, SID Bank thus assumes greater risks that are expected to remain at the maximum acceptable level in 2021.

The results of the risk profile assessment for 2020 indicate a slight rise in SID Bank’s risk assessment, which nevertheless remains at an acceptable level. Contributing most to the increase in the risk profile assessment was the COVID-19 pandemic and the associated general deterioration of the economic conditions and the intervention and counter-cyclical role of SID Bank.

One of the Bank's main objectives of risk management is to maintain an appropriate capital position, which the Bank manages as part of the internal capital adequacy assessment process, in the scope of which it takes into account normal operating conditions and stress situations. Regulatory capital is comprised solely of Common Equity Tier 1 capital. The Bank disclosed a high total capital ratio of 29.1% as at 31 December 2020. The value of that ratio was down by 4.9 percentage points relative to the previous year, primarily due to growth in corporate lending and the resulting increase in risk-weighted assets. It also recorded a leverage ratio of 14.7% at the end of 2020, which is significantly higher than the prescribed regulatory figure and will allow the Bank to operate stably in the future. In accordance with the Bank of Slovenia's decision, SID Bank was required to meet the buffer for other systemically important institutions in 2020 in the amount of 0.5% of total risk exposure, while that requirement will be 0.25% in 2021.

Maintaining an appropriate level of liquidity and a sound liquidity position is the next key objective in the area of risk management and is reflected in the high values of liquidity ratios, i.e. the liquidity coverage ratio and the net stable funding ratio. The average value of the liquidity coverage ratio (LCR) was 2,706% in 2020, while the net stable funding ratio was 132% at the end of 2020. The Bank regularly verifies its liquidity position and liquidity adequacy in the scope of ordinary operations and in connection with planned operations in the future. It also regularly verifies the appropriateness of the stock and structure of liquid assets in the scope of stress testing, both in the event of deteriorating market conditions and in institution-specific and combined scenarios, and carries out regular liquidity simulations in connection with planned operations in future periods.

The financial markets were subject to a sharp increase in volatility following the outbreak of the COVID-19 pandemic in early March 2020. With the adoption of extensive stimulus measures at the national and EU levels, as well as monetary policy measures, the conditions on the financial markets normalised during the second half of 2020. The extremely adverse conditions on the financial markets and the adoption of extensive measures to mitigate the drop in economic activity, as well as the negative consequences of the COVID-19 pandemic, had a significant impact on liquidity risk management in 2020. Since the outbreak of the COVID-19 pandemic, SID Bank has monitored potential negative effects on its liquidity position more frequently, and adopted the appropriate measures in a timely manner, as required. The Bank regularly monitors early warning signs and dedicates special attention to verifying liquidity adequacy in the scope of liquidity simulations that take into account specific conditions. Scenarios included, *inter alia*, the effects of adopted measures and the provision of liquidity financing, both in the scope of ordinary operations and in the event of additional adverse conditions. The Bank also adapted its activities in the area of borrowing taking into account the new circumstances in connection with the COVID-19 pandemic, and successfully raised a loan in the scope of the third series of targeted longer-term refinancing operations (TLTRO-III) at the end of the first half of the year. Due to the increased need for its counter-cyclical role, it issued a bond on the international financial markets at the beginning of July 2020 in the amount of EUR 350 million with the aim of financing the economy to mitigate the consequences of the COVID-19 pandemic. Despite increased credit activity, SID Bank maintains the appropriate level, quality and structure of liquid assets (i.e. a liquidity buffer) to cover the Bank's expected and unexpected liquidity outflows. In the future the Bank will continue to implement a policy outlining the prudent management of liquid assets in terms of the appropriate structure and sufficient diversification of liquidity reserves, taking into account potential adverse trends on the financial markets.

The Bank's high capital adequacy and sound liquidity position allow it to take-up increased risk in the scope of existing and new intervention financing programmes that are intended to mitigate the consequences of the COVID-19 pandemic for Slovenia's economy.

In 2021 SID Bank will take up risk in accordance with the limits set for individual types of risks within the scope of the adopted risk appetite. The financing of commercial banks is planned in the form of new loans with the (co-)take-up of the credit risk of final beneficiaries (companies), loans in the scope of loan funds and project financing with an additional programme for projects of the wider public sector. The Bank is also planning to take up risks in the scope of two new equity financing programmes for companies in the early stages of development and for ownership succession, i.e. the continued marketing of the Slovene Equity Growth Investment Programme product, and new financing programmes in the scope of products based on financial engineering from national funds. It will also continue activities relating to the management of funds of funds.

SID Bank pays particular attention to risks that derive from loan funds and products based on financial engineering from national funds, where the state covers an agreed share of first loss, as increased credit risk in the scope of individual financing programmes is reflected through the financing of customers with poorer current credit ratings, the financing of higher-risk segments, through longer moratorium periods, and poorer LTVs, which is in line with the role and policies of a development bank. When managing risks that derive from loan fund transactions, SID Bank takes into account methods and procedures for measuring and assessing, managing and monitoring transactions used in other operations on own account.

With the outbreak of the COVID-19 pandemic, macroeconomic forecasts for Slovenia and the global economy deteriorated significantly, which also led to increased credit risk. The adoption of measures to mitigate the negative consequences of the COVID-19 pandemic at the national, European and broader level also resulted in a change in expectations regarding future trends in the quality of the credit portfolio.

SID Bank defined new scenarios of macroeconomic forecasts soon after the outbreak of the COVID-19 pandemic in Slovenia, and took them into account in the calculation of credit parameters and expected credit losses as at 30 June 2020. A reassessment of the scenarios of macroeconomic forecasts was carried out as at 31 December 2020. SID Bank took into account the forecasts of the Institute of Macroeconomic Analysis and Development in its baseline scenario of growth in Slovenian GDP, while the macroeconomic forecasts of the European Commission, European Central Bank and IMF were taken into account in the forecast of GDP growth for the euro area. Forecasts of GDP growth and the method used to include macroeconomic forecasts in the calculation of credit parameters and expected credit losses as at 31 December 2020 are defined in more detail in the financial section of the annual report under point 2.3.8 in the section Impairments of financial assets and provisions.

The quality of the credit portfolio improved in 2020, primarily as the result of a higher proportion of A-rated exposures according to the Bank of Slovenia's classification. That proportion stood at 57.9% at the end of 2020 (end of 2019: 53.2%). The proportion of non-performing loans and other non-performing financial assets to classified loans and other financial assets amounted to 3.6% at the end of 2020 (end of 2019: 4.0%). The coverage of non-performing exposures remains relatively high and at the end of 2020 stood at 53.8% (at the end of 2019: 60.3%). The reduction in the coverage ratio is primarily the result of a reduction in impairments for the largest non-performing exposure, which accounts for 41% of total non-performing exposures.

In conjunction with SID Bank's intervention role, the structure of the credit portfolio is shifting in favour of loans to non-financial corporations, while certain financing programmes have been adapted or new programmes created with the aim of helping the worst affected sectors. This, in turn, increases credit risk, which SID Bank manages in individual programmes through state participation in first loss and risk-sharing. Due to deteriorating expectations in food services, tourism, the automotive industry and road transport, which could not yet have been identified at the end of 2020 through quantitative criteria in the assessment of significant increase in credit risk, credit analysts performed additional analyses at the level of individual customers, based on which SID Bank reclassified certain exposures from Stage 1 to Stage 2 (significant increase in credit risk) as at 31 December 2020.

The quality of the credit portfolio is expected to deteriorate in the future, as the economic situation remains uncertain, while measures to mitigate the negative effects of the COVID-19 pandemic are only temporarily rectifying the problems that companies are facing. Leading to an increase in impairments and provisions for credit losses could be the additional reclassification of exposures from Stage 1 to Stage 2, the emergence of new default events and the resulting reclassification of performing exposures to non-performing exposures, and the deterioration in macroeconomic forecasts. On account of the measure to defer the payment of liabilities, there is the risk of a sudden deterioration in the quality of the credit portfolio due to delays by borrowers when that measure expires. In the past, delays by borrowers were an important indication for banks of borrowers' liquidity problems, which were reflected in downgrades. When assessing credit quality of those borrowers who were granted a deferral in the repayment of obligations, SID Bank separates those who won't suffer major long-term negative consequences in the current conditions and those who will probably fail to achieve the pre-crisis level of credit quality. SID bank regularly monitors the credit quality of all its borrowers and verifies any deterioration in credit quality and thus the increased probability of default, which results in the downgrading of borrowers and their classification to stages in accordance with IFRS 9. SID Bank expects the proportion of non-performing exposures to rise, but to a lesser extent, as the high volume of new loans will have a favourable effect on that proportion.

SID Bank will continue to manage credit risk prudently in 2021. The Bank will maintain the appropriate risk management culture, exercise caution in the credit process and dedicate additional attention to the timely identification of increased credit risk in connection with customers and individual segments of the portfolio, and create a sufficient level of impairments and provisions for credit losses. It will also closely monitor changes in the credit portfolio, prepare additional analyses and attempt to implement measures in a timely manner to mitigate credit risk, either through the establishment of additional limits, the continuous resolution of the problems of specific customers and the more active management of non-performing exposures, or by setting higher LTV ratios.

SID Bank intends to implement the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06) in the coming year, including the upgraded assessment of environmental, social and governance risks. Climate change is becoming a key financial risk that the Bank will integrate into its comprehensive risk management system, and thus begin to establish mechanisms for managing climate risks and transforming the economy into a more sustainable and circular form of functioning.

Exposure to interest rate risk derives from interest-sensitive positions in the banking book. SID Bank has a process in place for managing interest rate risk in the banking book with the aim of maintaining that risk at a level that is in line with the Bank's risk appetite, the definition of which is stricter than the regulatory limit. Interest rate risk is measured on the basis of interest rate gaps and the regular measurement of the effect of changes in market interest rates in the prescribed scenarios on the economic value of equity and net interest income. The Bank also takes into account the option risk that derives from contractually embedded automatic interest rate options in both measurements. In terms of the economic value of equity, the most unfavourable result according to data at the end of 2020 is 5.3% of the Bank's equity in the event of change in market interest rates of +200 basis points. An important element of interest rate risk management is the portfolio of debt securities, the purpose of which is ensuring secondary liquidity and stabilising the interest margin. The Bank uses derivatives in the form of interest rate swaps to hedge against interest rate risk, for the purpose of fair value hedging in connection with both assets and liabilities. In 2020 SID Bank updated the methodology used to measure the impact of changes in market interest rates on net interest income and the methodology used to include off-balance-sheet items in the measurement of interest rate risk. The Bank will continue to upgrade its methodology for measuring interest rate risk in 2021.

SID Bank executes the majority of investment transactions in the domestic currency. The Bank's exposure to currency risk is thus low, is within internally defined limits, and does not exceed the prescribed regulatory limit for the calculation of the capital requirement for currency risk according to data at the end of 2020.

In the area of operational risk, SID Bank has in place a robust risk management culture that is implemented following the example of senior management. Operational risk is monitored through the collection of data regarding loss events, and through the identification, assessment and management of that risk. SID Bank pursues the objective of the continuous improvement of the control environment and the implementation of measures to prevent the repetition of loss events. SID Bank records both loss events based on actual losses and loss events based on potential losses for the purpose of the best possible collection of information. SID Bank did not record any significant loss events in 2020.

In terms of operational risk, 2020 was primarily characterised by the COVID-19 pandemic, which resulted in actual losses for SID Bank in the form of the costs of adapting to the new environment, as well as potential risks due to changing business processes and products. With the aim of mitigating operational risk and increasing transparency, SID Bank recorded all temporary and specific changes to business processes as a response to the pandemic in a single bylaw. By adapting work and processes to the conditions in Slovenia, implementing government measures and the recommendations of the National Institute of Public Health, and continuously updating and implementing its business continuity plan, SID Bank provided uninterrupted support to customers and ensured the continuous performance of tasks by its employees.

In addition to the epidemiological situation, SID Bank focused on actual risks brought to banking practices by digitalisation, which systematically increases risks in connection with information and communication technology (ICT), and risks in connection with fraud, money laundering, terrorist financing and compliance. With regard to the management of fraud risk, SID Bank enhanced the control environment by introducing the in-depth assessment of exposure to the risk of fraud and mechanisms for the early detection of fraud indicators and responses thereto. Similar to other forms of fraud, cyber incidents can result in financial losses, indirect negative consequences and even systemic effects. Given its lower level of exposure to such risks compared with commercial banks because its operations do not include current accounts, electronic banking, card operations, etc., SID Bank will manage the aforementioned risks using an ATP (Advanced Threat Protection) system and a SIEM (Security Information and Event Management) system that have been successfully introduced at the Bank. Planned in 2021 is the introduction of upgraded application support for the management of the risk of money laundering and terrorist financing, and automated support for the monitoring and implementation of legislation.

SID Bank also gives special attention to outsourcing, where its management of external contractors ensures the appropriate performance of outsourced functions. The Bank intends to reduce its dependence on external contractors in the future, in part through the strategic activity of establishing a new core IT system, which is planned in 2022.

Assessed profitability risk has risen in recent periods due to the adverse economic conditions and increased credit risk, as well as the uncertainty of macroeconomic forecasts, which affects the level of impairment and provisioning costs. Profitability risk is rising in part due to the take-up of greater risks with the aim of mitigating the consequences of the COVID-19 pandemic for the economy. The protracted period of low and negative interest rates and adverse economic conditions further impeded the management of liquid assets in terms of achieving returns. Nevertheless, the Bank will continue to prioritise the provision of liquidity and ensure the safe management of its liquid assets.

SID Bank carefully manages strategic risk, which increased in 2020 primarily due to the outbreak of the COVID-19 pandemic, which led to the adaptation of the Bank's business model and financial plan to the new conditions. Changes and adaptions also led to a change in the setting of priorities in the implementation of the Bank's strategic activities, particularly in the creation of programmes and the development of new products, decisions regarding the pace and growth in the scope of activities, decisions regarding the structure of sources, decisions regarding the segmentation of activities with respect to risks, etc. The Bank's intervention and counter-cyclical role could have a positive impact on SID Bank's reputation, while the inability to meet all of the expectations of external stakeholders in the context of the simultaneous provision of high-quality risk management could have a negative impact on the reputation risk to which SID Bank is exposed.

The remuneration policy is presented in detail in section 2.6.3. The remuneration system is based on a link between employee remuneration and the prudent take-up of risks, and governs the ratio between the fixed and variable components of remuneration for employees whose work is of a specific nature. The policy and other related bylaws in this area focus on achieving the objectives of the Bank's business strategy, and are adjusted to the Bank's risk profile and risk absorption capacity. The management of the variable components of remuneration is included in the risk profile in the scope of operational risk and internal controls. All three internal control functions are included in the process of formulating, controlling and reviewing the appropriateness of remuneration policies. The tasks of the risk management function include participation in the definition of appropriate criteria for job performance and commercial success that take into account assumed risks, and an assessment of how the structure of the variable components of remunerations affects the Bank's risk profile and the risk take-up culture. It also gives its opinion regarding the fulfilment of conditions by employees (whose job has a material impact on the Bank's risk profile) for the payment of the deferred variable component of wages in terms of risks in connection with the viability of the Bank. The compliance function analyses how the remuneration policy affects the Bank's compliance with laws, regulations, internal policies and the risk take-up culture. The internal audit department must perform an independent audit of the bases, implementation and effects of the remuneration policy on the Bank's risk profile.

Planned in the scope of upgrading of existing risk management techniques is the upgrading of internal stress testing methodologies, the inclusion of model risk and the validation system in the risk management process, as well as the upgrading of Bank's asset and liability management system.

Risk management of operations under Republic of Slovenia authorisation

In the scope of measures to mitigate the consequences of the COVID-19 pandemic on the Slovenian economy, the Republic of Slovenia authorised SID Bank, via the ZDLGPE and paragraph 5 of Article 65 of the ZIUZEOP, to carry out all transactions in the name and on behalf of the Republic of Slovenia in connection with the liquidation of guarantees, monitoring and implementation of all necessary measures for the enforcement of recourse receivables, and to verify in substantive terms that the conditions under the law following the payment of the guarantee are respected.

In addition to the guarantee scheme, SID Bank also provides credit and investment insurance against non-marketable risks of a non-commercial and commercial nature in the name and on behalf of the Republic of Slovenia. In addition, the Bank manages funds from the European cohesion policy (funds from funds of funds).

To prevent conflicts of interest and to maximise efficiency, credit and investment insurance operations are executed by a special department that is organisationally segregated from banking operations all the way to the level of the executive director, while a special committee for operations under Republic of Slovenia authorisation decides on and discusses these types of operations. The government operations committee makes decisions regarding exposure limits for individual customers, and regarding the payment of insurance and reinsurance claims, discusses requests to call government guarantees, and regularly monitors and oversees the execution of all operations under Republic of Slovenia authorisation. Decisions regarding all transactions in excess of EUR 5 million are made by the international trade promotion commission. The government operations committee also plays a significant role in adopting business plans and strategic programme documents in connection with the establishment of financial instruments funded via the European cohesion policy.

SID Bank manages the risks inherent in operations on behalf of the Republic of Slovenia in accordance with its bylaws similarly as in the banking segment. The responsible committees discuss reports on interest rate risk, currency risk, liquidity risk, operational risk (via loss events) and credit risk (monitoring limits on investment operations by the treasury department and concentration of exposure by country).

In the area of credit and investment insurance against non-marketable risks of a commercial and non-commercial nature, SID Bank uses a risk management model (value-at-risk or *VaR* technique) to calculate potential claims on the basis of data on insurance concluded in the name and on behalf of the Republic of Slovenia, to assess whether contingency reserve assets are sufficient to cover these claims, and to estimate the maximum potential claim and the impact of new insurance operations on potential claims. The methodology used to calculate the assessment of potential losses from the insurance portfolio is based on coefficients for the probability of a loss event, both for countries (sovereigns) and individual debtors. The calculation of the probability of default for a specific country or customer is based on recognised international credit ratings, and the corresponding adjusted probabilities of default.

As at 31 December 2020, contingency reserves amounted to EUR 166,257 thousand. Based on the use of the value-at-risk (VaR) technique and data from the insurance portfolio (including transactions in the enquiry phase) according to the situation as at 31 December 2020, it can be asserted with 94.92% certainty that claims over the next one-year period will not exceed the amount of the contingency reserves.

The outbreak of the COVID-19 pandemic could impact operations on behalf of the state in the segment where SID Bank also provides credit and investment insurance against non-marketable risks of a commercial and non-commercial nature in the name and on behalf of the Republic of Slovenia. Due to the implementation of economic measures to mitigate the consequences of the COVID-19 pandemic, the exposure from insurance operations have risen significantly. The portfolio of high-risk transactions could increase significantly should the economic conditions continue to deteriorate due to the current situation, in which governments would be limited in terms of measures they are permitted to implement in the form of aid to economic operators.

For more on risk management, see section 3 of the financial report.

Statement of the management body on the appropriateness of the risk management framework

In accordance with Article 435(1)(e) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the management body, represented by:

on behalf of the management board: Sibil Svilan (president) and Goran Katušin; and

on behalf of the supervisory board: Marjan Divjak (chair)

by signing this declaration, hereby confirms the adequacy of the risk management framework at SID Bank, which ensures that the established risk management systems comply with the Bank's risk profile and business strategy.

Within the Bank's organisational structure, the risk management framework or function is segregated in organisational terms from the commercial units that take up risks, i.e. within the credit process up to the level of the executive director who covers the organisational unit responsible for the assessment of credit risks of individual business entities and groups of connected clients, while the risk management function at the aggregate level of the Bank is directly accountable to the management board. This ensures the appropriate implementation of the risk management framework at the level of the Bank's daily activities and the regular notification of the management board and the Bank's other decision-making bodies. Regular independent briefing of the supervisory board's risk committee and the supervisory board on the risks to which the Bank is exposed has also been put in place.

The risk management function is provided with direct access to the chair of the supervisory board and the chair of the risk committee for notification in the event of the specific development of risks that affect or could affect the Bank's risk profile. The regulatory framework of the risk management process, including the internal capital and liquidity adequacy assessment processes, ensures the Bank that the systems put in place for the management of identified risks comply with the Bank's profile and business strategy.

Notwithstanding the above, the Bank's management body (the management board and the supervisory board) is fully authorised and responsible for defining and adopting the risk management framework and for regularly reviewing its adequacy, including the provision of updates, depending on the effects of the Bank's internal and external environmental factors, and for overseeing the implementation of the adopted risk management strategies and policies.

Ljubljana, 18 March 2021

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan, M. Sc.
President

Supervisory board

Marjan Divjak, M. Sc.
Chair

Performance in 2020

Macroeconomic environment in 2020[6]

International environment

In 2020 the COVID-19 pandemic turned already slow global economic growth into a drop in global GDP of 3.3%, the most significant drop since the Second World War (after 1946). The proportion of countries that recorded an economic decline during the same year was the highest in the last 150 years. The temporary recovery during the first and second waves of the pandemic in 2020 indicates the possibility of a quick economic rebound following the end of the pandemic. A global economic recovery can be expected this year in the context of a high vaccination rate in many countries: the latest forecast of the International Monetary Fund (IMF) indicates global growth of 6.0% in 2021, where the recovery will be more uneven than the drop in economic activity at the national and sectoral levels, depending on individual healthcare systems, the effectiveness (and possibility) of specific intervention and monetary and fiscal policy stimulus measures, and the structure of individual economies at the outset of the crisis.

A high level of heterogeneity was seen already in 2020 amongst developing countries. China, which was the first country hit by the pandemic, maintained positive economic growth (of 2.3%) with the help of effective measures to limit the spread of the virus, extensive government investment efforts and the strong monetary support of the central bank. A notable difference between China and other developing countries is expected this year and next year. According to the forecast of the IMF, China is expected to achieve growth of 8.4% already in 2021, while other countries in the same group are expected to do no more than recoup last year's drop in economic activity. Particularly those countries that are highly dependent on tourism and exports of oil will encounter problems.

The return of strong economic growth will also depend on the recovery in global demand and the geopolitical situation. Even after the inauguration of the new US president, geopolitical and economic tensions between the world's two superpowers are not expected to ease. All developed economies were hit hard by the pandemic, with the drop in economic activity in that group reaching 4.7% in 2020, compared with 1.6% growth in 2019. The USA recorded a more rapid and, above all, more extensive drop in employment than the euro area, as its measures were less focused on preserving jobs, while USD 3 trillion was earmarked to support the economy and households. The conditions on money markets in the developed world in 2020 increased the risk of asset bubbles, particularly on stock exchanges, and on real estate and other markets.

In the context of a notable drop in private consumption, the euro area also recorded a 6.6% drop in GDP in 2020, despite numerous measures to support the economy. Following the initial jump in required yields on the bonds of many countries, already lax monetary policy drove those yields down in 2020 through extensive liquidity support to keep them at historically low levels, despite the crisis conditions. Monetary policy measures were joined last year primarily by extensive fiscal support measures, including an agreement on temporary deviations from the Maastricht criteria regarding debt and government deficits in the euro area.

The protracted second wave of the pandemic and limited capacities for the production of vaccines are pushing a full recovery further into the future. According to forecasts of the European Commission, economic growth will be 3.8% this year, while GDP will not return to the pre-pandemic level until the end of 2022. Data

[6] Data from publicly accessible publications of the SORS, BS, IMAD, EC, ECB, BIS and IMF, released up to the publication of this annual report.

from the second wave indicate that production activities were affected to a lesser degree, while service activities were hit hard, but not as hard as in the first wave. Gross fixed capital formation in the euro area was down sharply last year (by 8.4%), while renewed growth will be gradual, as a high level of uncertainty continues to dominate the markets. Inflation in the euro area was exceptionally low in 2020 at 0.3%, and is expected to reach 1.5% this year. Comprehensive measures aimed at preserving jobs mean that the significant drop in economic activity was not followed by an equally sharp drop in employment. This, in turn, means that growth in productivity is not expected to be tracked to the same degree by improving conditions on the labour market at the start of the recovery.

The euro ended a two-year slide relative to the US dollar in 2020, and began appreciating after the first wave of the pandemic and ended the year at USD 1.22/EUR, its highest level since April 2018. The appreciation of the euro vis-à-vis the US dollar and the basket of other currencies came to a halt at the end of the year. The euro area budget deficit was 7.2% of GDP due to declining revenues, but even more so on account of expenditure for measures to support the economy, while gross government debt rose by 13 percentage points to stand at almost 97% of GDP. The most significant short- and medium-term risks are those associated with the pandemic, and the accessibility and efficacy of vaccines.

Slovenian economy

The Slovenian economy recorded a 5.5% (6.1% seasonally adjusted) drop in GDP in 2020, which was similar to the euro area and EU average. However, the Slovenian economy suffered a sharper drop in private consumption (of 9.7%), which resulted in a high level of household savings as the result of adjustments to increased uncertainty and the inability to spend on certain activities and products. The household saving rate is expected to decline gradually this year and in the years that follow.

On the other hand, growth in government consumption of 1.8% was higher than the euro area average. Government measures, to a great degree based on EU aid schemes to support the labour market, were the reason that employment only fell by 1.0% and average compensation per employee was up by 1% in 2020, despite a 4.6% drop in productivity. The surveyed unemployment rate at the end of the year was close to 1.1 percentage points higher than at the end of 2019, when the surveyed unemployment rate reached its lowest level in the two decades that it has been measured in Slovenia.

The adverse conditions, a drop in demand and uncertain outlooks resulted in a drop in gross fixed capital formation that was 4.1% lower than anticipated after the first half of the year. Due to lower foreign demand, disrupted supply chains and containment measures, the drop in exports in 2020 was severe at 8.7%, while the drop in imports was even higher at 10.2%. In terms of dynamics during the year, involvement in international value chains was exceptionally strong. Those value chains were not hit as hard during the second half of the year, when there was a notable recovery in exports. The Slovenian share of the global market was thus down by 1.7% in 2020. However, the decline at the beginning of the year was even more pronounced and then began to ease. Part of the reason for that decline was the Slovenian economy's strong involvement in the automotive industry, which was hit hard across the globe last year.

Service activities were severely affected during both waves of the pandemic due to containment measures: in the tourism sector, there was a 42% decline in the number of overnight stays relative to the previous year, while the number of arrivals of foreign tourists was down by 74% relative to 2019. In the adverse conditions, the Slovenian economy will have to find a way to exploit the crisis for the transformation into a greener and more sustainable form of operations, which will be a key policy of the Recovery and Resilience Facility and the EU's next multiannual financial framework.

Growth in residential real estate prices continued in 2020, despite the pandemic, albeit at a lower rate than in the past. Real estate prices were up by 5.2% in the context of slightly fewer transactions. The trend of a declining number of building permits continued (a decline was recorded for the fourth consecutive year). Part of the reason for that decline lies in a shift to the construction of multi-dwelling buildings. Despite a 6% decline in the number of permits, the number of planned housing units exceeded the number of housing units constructed with building permits issued in 2019 by 8%.

Slovenia recorded deflation of 1.1% in 2020 due to falling energy prices and slowing growth in other prices. The general government deficit amounted to 8.4% of GDP primarily due to extensive measures to support the economy and households during the pandemic, while the general government debt rose to 80.8% of GDP.

Banking environment

In contrast to the euro area, corporate loans contracted by 1.4% in Slovenia in 2020. Loans to households were up minimally (by 0.1%) in 2020, but only housing loans recorded growth, as consumer loans fell sharply (by 7.8%). Total growth in lending to the non-banking sector was just 0.2% in 2020. Despite the extremely low growth in loans to the non-banking sector, high growth in the banking system's total assets continued, and was 8.3% in 2020.

Through targeted longer-term refinancing operations (TLTRO III), the European Central Bank provided the banking sector affordable conditions that, in turn, were reflected in favourable borrowing terms for the non-banking sector. High growth in deposits was also recorded in 2020, with year-on-year growth in household deposits reaching 10.2%. At 18.8% growth in corporate deposits was even higher, which is a reflection of reduced consumption and a drop in business investments. Both companies and households are increasing their precautionary reserves. The liquid assets of banks were up sharply (in particular banks' claims against the central bank), by 52.6%.

The ZIUOPOK was passed in March and systematically facilitated the restructuring of loans to entities that were unable to service their debt due to the pandemic. The law provides for a moratorium on credit liabilities for companies, sole traders, cooperatives, farmers, and other individuals. In April, due to increased risks in connection with the outbreak of the pandemic, the Bank of Slovenia adopted a macroprudential measure in the form of a temporary restriction on the payment of profits by banks and savings banks.

Banks gradually tightened their credit standards during the second half of the year, probably as a reflection of their perception of increased risks and their reduced appetite to take up risks. Despite the aforementioned decline in aggregate demand for new loans, the results of the SAFE survey indicated considerable heterogeneity amongst borrowers. Nevertheless, the market gap in part of the spectrum widened sharply, particularly with respect to micro and small enterprises, which frequently have insufficient liquidity reserves. In this segment, the extent of market gap exceeded the gap estimated during the financial crisis after 2008.

The capital adequacy of Slovenian banks remains sound, both in terms of the total capital ratio, which stood at 18.3%, and the Common Equity Tier 1 capital (CET1) ratio, which stood at 16.7%, both close to the euro area averages of 19.5% and 15.6%, respectively. Despite the adverse conditions, the volume of banks' non-performing exposures continued to decline for the majority of the year, and only started to rise slightly from October on, primarily due to growth in the sectors of tourism and food services, but remained lower at the end of the year than were at the beginning of the year. Together with the previously mentioned temporary moratorium in debt repayments, this points to a potential deterioration in the future and an increase in profitability risk in the banking system.

In the context of extremely low interest rates, there was a notable drop in the banking system's interest income, by 6.4%, while non-interest income was up. The profit of the Slovenian banking system was down by 20% in 2020 relative to the previous year. That drop would have been even more noteworthy without the one-off effect of the merger of NKBM and Abanka, since which time less than a quarter of the banking system's equity is still under domestic ownership. Both ROA (1.10%) and ROE (9.57%) were lower than the previous two years.

At the end of 2020 SID Bank accounted for 6.5% of the Slovenian banking system's total assets (2019: 5.8%). As a development bank tasked with working in market gaps, including gaps of a cyclical nature, there was a significant increase in the scope of operations last year, initially through measures to provide liquidity to the economy, and later through instruments to mitigate the consequences of the COVID-19 crisis and measures to reboot the economy. The stock of SID Bank's net stock of loans granted was up by 14.5% last year, with a significant part of that increase in the segment of direct financing, which offset to a great extent the decline in the funding of other banks; the bank mitigated the decrease of loans to corporate sector by close to 3 percentage points.

Impact of the external environment on operations

The work of SID Bank was characterised in 2020 primarily by its intervention and counter-cyclical role in the Slovenian economy and banking system. Similar to the outbreak of the previous global financial crisis, SID Bank again reacted quickly and to a sufficient extent so that its work is relevant in macroeconomic terms.

At the beginning of 2020, in the context of the sudden outbreak of the pandemic, SID Bank primarily provided additional liquidity to the economy, both indirectly via banks (by facilitating the use of funds to mitigate the consequences of the pandemic at companies under adapted terms and conditions) and directly. SID Bank also adapted existing products for the financing of working capital and, by announcing a state aid scheme, took advantage of opportunities that arose when the European Commission adopted a new temporary framework of state aid measures to support the economy. During the first half of 2020 SID Bank carried out all activities necessary to begin the implementation of guarantee schemes under the ZIUZEOP and ZDLGPE as a necessary response to the new economic conditions.

Due to an increased market gap in the financing of SMEs, SID Bank used the new programme to provide liquidity to SMEs, in particular, with the aim of keeping those companies afloat in the adverse conditions. SID Bank identified increased demand for loans in February and immediately adapted the framework for lending activities in a key segment of the credit portfolio with the aim of speeding up the pace of approval and loan drawdown, and shortening processing times. SID Bank's products should, above all, promote the future competitiveness of the Slovenian economy, from an emphasis on the RDI segment to the development of a fund that will be oriented to early investments and the transfer of technologies. This also required procedural, organisational and employee-related adaptations.

Impact of COVID-19 on the Bank's operations

The outbreak of the COVID-19 epidemic had a significant effect on all areas of SID Bank's operations. Using a survey, SID Bank began monitoring the impact of the epidemic on the global and Slovenian economy, companies and business partners at the beginning of the year, and made the rapid transition from a development role to an intervention and counter-cyclical role based on the results.

The total lockdown of certain sectors of the economy resulted in extremely high demand for the liquidity financing of companies and the insurance of export transactions, to which SID

Bank responded with new and adapted existing programmes of direct and indirect financing for the needs of the economy. Particularly significant was the increased provision of direct intervention financing, which dictated additional procedural and organisational adaptations, as SID Bank provided financing to the economy for the most part via commercial banks in the past and during the previous economic and financial crisis.

Various instruments in that framework further facilitated the financing of liquidity needs and current operations in the scope of programmes to finance the operations of SMEs, companies in the sector of tourism and hospitality services, and the financing of companies of all sizes financed under the SDMKV[7] scheme, as well as the financing of working capital within the programme of financing investments in the wood-processing sector. As part of its intervention role in response to the COVID-19 pandemic, SID Bank was also engaged in the financing and issuing of guarantees for the purchase of urgent medical equipment and materials. Made possible in the scope of operations on behalf of the Republic of Slovenia (insurance/reinsurance) were the insurance of advances for the purchase of urgent medical equipment, adjusted terms and conditions for the insurance of export preparation loans and bank guarantees, amended terms and conditions for supplier credit insurance and insurance against supply chain risks, and the revised policy of the Slovenian component.

In order to ensure sufficient funding to finance the economy, the Bank issued a COVID-19 bond in the amount of EUR 350 million, and used purpose-specific funds from the European Investment Bank, the Council of Europe Development Bank and Kreditanstalt für Wiederaufbau. In the scope of funds of funds, SID Bank developed and began to implement various financial instruments for which it uses European cohesion funds.

The Republic of Slovenia also authorised SID Bank to carry out, in its name and on its behalf, all transactions in connection with the provision and liquidation of government guarantees in the scope of the guarantee scheme set out in the ZDLGPE, and similarly for the scheme set out in the ZIUZEOP, based on which banks and savings banks can receive a government guarantee for approved deferred payment of loan obligations.

The COVID-19 pandemic also affected SID Bank's internal and external business processes, which it continuously adapted, while primarily accelerating the digitalisation of operations. The credit process and other communications with customers and other stakeholders, as well as internal work processes, were thus fully digitalised for the majority of 2020 with the aim of complying with measures to contain the pandemic.

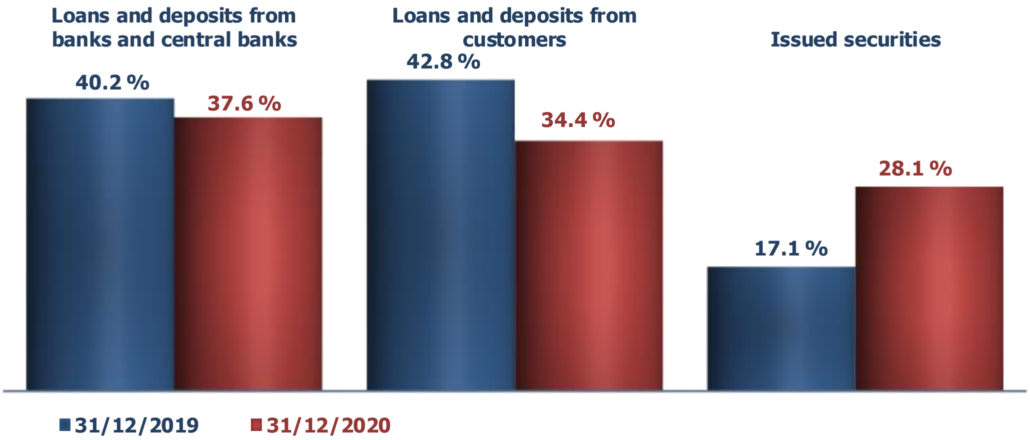
Performance of SID Bank

Funding

SID Bank obtains funding on the domestic and international financial markets to diversify its funding, particularly in terms of investor type, geographic dispersion and the type of financial instrument, which ensures that SID Bank has stable access to primarily long-term sources of funding. Accordingly, SID Bank actively worked again with banks and other institutional investors in the international environment in 2020.

[7] Direct corporate financing during the COVID-19 outbreak

Structure of financial liabilities



With the aim of generating new value for the target groups of final beneficiaries and to improve access to favourable long-term funding, the Bank's credit lines and programmes comprise long-term purpose-specific funding from the European Investment Bank, Kreditanstalt für Wiederaufbau, the Council of Europe Development Bank and the MEDT, in addition to other sources of funding. The Bank drew down EUR 57.2 million in purpose-specific funding in 2020. In accordance with needs, funds from the European Investment Bank were additionally modified for the purpose of financing corporate liquidity needs due to the impact of the COVID-19 pandemic.

In July 2020 SID Bank issued a five-year COVID-19 bond in the nominal amount of EUR 350 million on the international capital market in a public issue. The bond was issued under favourable price terms with a yield to maturity of 0.14% at issue, which was a spread of 21 basis points at issue over government bonds of comparable maturity. Favourable price terms are an indication of domestic and international investors' confidence in SID Bank and the associated government guarantee. Funds from the issued bond are earmarked for the financing of the Slovenian economy in order to mitigate the consequences of the COVID-19 pandemic through programmes implemented by SID Bank and thus help overcome corporate liquidity problems and accelerate the process of achieving a technological and sustainable transformation that will facilitate renewed economic growth and ensure high-quality jobs.

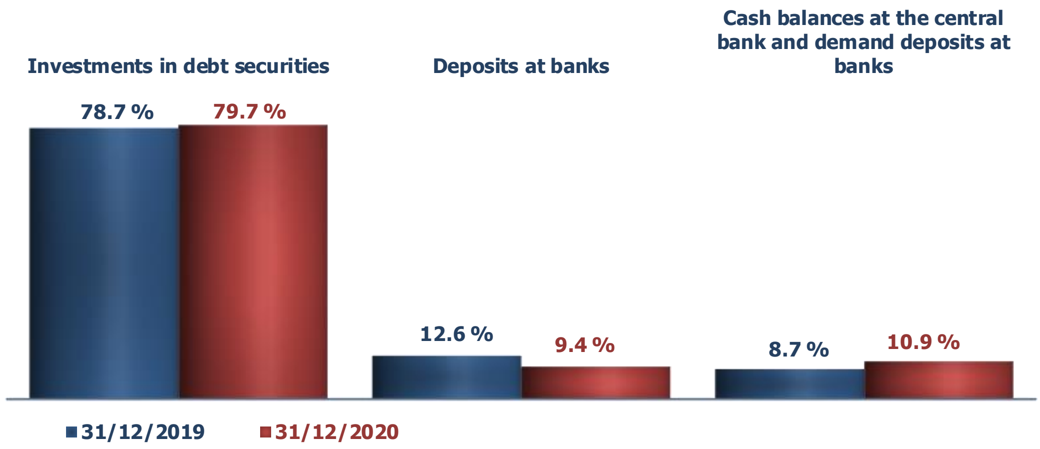
SID Bank increased the stock of long-term loans raised via the central bank in 2020, as in accordance with the ECB's newly adopted non-standard measures, it made further use of the quota of targeted longer-term refinancing operations (TLTRO-III).

Liquid assets

Despite its intervention activities and the adverse conditions on the financial markets in 2020, SID Bank continued to maintain the appropriate level, quality and structure of liquid assets to cover its expected and unexpected liquidity outflows and for business continuity in demanding circumstances, in particular its increased credit activity in the scope of anti-crisis activities.

The Bank's liquidity reserves amounted to EUR 1,100,516 thousand at the end of 2020, an increase of 31.7% relative to the end of 2019. Accounting for the highest proportion of liquid assets at the end of 2020 were investments in debt securities in the amount of EUR 876,566 thousand (2019: EUR 658,019 thousand), followed by interbank deposits in the amount of EUR 103,763 thousand (2019: EUR 104,915 thousand), and balances at the central bank and demand deposits at banks totalling EUR 120,187 thousand (2019: EUR 72,729 thousand).

Structure of liquid assets



The Bank manages investments in debt securities for the purposes of liquidity provision, asset-liability management, and the stabilisation of the interest margin. In investing liquid assets in debt securities, the Bank follows a conservative and prudent strategy, as the majority of the portfolio comprises marketable and liquid debt securities with an investment-grade credit rating issued in the EU that are eligible as collateral at the central bank, thereby ensuring adequate diversification with regard to the type and location of the issuer. Around 70% of the entire debt securities portfolio is accounted for by government debt securities, followed by the debt securities issued by financial corporations and debt securities issued by non-financial corporations. With regard to the latter, priority is given to the issue of so-called green bonds. The average residual maturity of the debt securities portfolio was 4.3 years at the end of 2020.

The main challenges in the management of liquid assets were related to the coronavirus pandemic. During the initial phase of the pandemic, the adverse conditions on the financial markets resulted in rising credit spreads and investors' flight to safe investments. The cooling of the economy required the coordinated implementation of monetary and fiscal policies, which led to the subsequent normalisation of risks. However, income potential deteriorated further due to low and negative interest rates. Interest rates on the money market and the yields on bonds have further decreased, thereby prolonging the period for which market participants expect negative or historically low market interest rates.

SID Bank will continue to implement a conservative and prudent strategy for managing liquid funds in the future, with the primary aim of ensuring liquidity and security.

Financing

Financing is carried out with previously established instruments, instruments adapted to actual needs and new instruments. It is based on purpose-specific loans to commercial banks (global loans), direct loans to corporates classified as state or *de minimis* aid (primarily in the form of financial engineering instruments) or without such classification, syndicated loans, loans to municipalities and the wider public sector, export credits, project financing, the purchase of receivables, accession to debt and other forms of risk take-up, as well as financial instruments via SID Bank's funds of funds that are provided indirectly via financial intermediaries or directly via SID Bank (FI 2014–2020 Fund of Funds and COVID-19 Fund of Funds). The scope and method of financing by SID Bank is based on identified market gaps, market needs and the activity of other financial institutions.

SID Bank took on a largely intervention role in 2020 due to the COVID-19 epidemic and was active in the area of anti-crisis financing and insurance. The Bank expanded the range of existing financing programmes within the financial engineering measures, and adapted the terms and conditions and purpose of financing the needs of companies whose operations were affected by the COVID-19 pandemic. It also strengthened direct and indirect financing from own funds with the aim of mitigating the consequences of the COVID-19 epidemic on Slovenian economy. Its enhanced intervention role was reflected in the increased number of customers and the increased number and amount of newly approved financing transactions relative to its normal development role, which it continued to perform throughout the year.

With the aim of stimulating economic recovery, the Bank developed a programme for the financing of technological development projects, strengthened its cooperation in the development and implementation of investment, infrastructure and export projects, promoted investments, and took part in the initiatives focusing on the circular economy, environmental protection and energy efficiency.

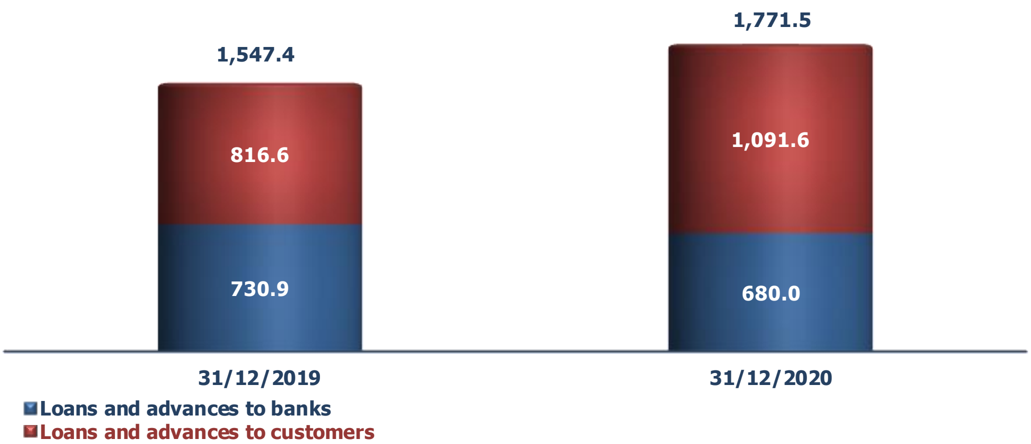
Within the on-lending of purpose-specific funds via commercial banks and savings banks, it adapted the terms and conditions of indirect financing programmes to meet the needs of the economy during the epidemic and, together with the MEDT, developed and began to implement the COVID-19 Fund of Funds (from European cohesion funds), which is intended for the financing of investments and, above all, for the financing of corporate liquidity needs.

In the framework of its anti-crisis and development role, SID Bank concluded 304 direct financing and indirect financing transactions with financial institutions in 2020 in the total amount of EUR 501 million.

The structure of SID Bank's credit portfolio in terms of maturity reflects its focus on activities under the ZSIRB and the ZZFMGP, as well as programmes that reflect its intervention and counter-cyclical role. Nearly all loans are of a long-term nature with a variable interest rate.

At the end of 2020 net loans totalled EUR 1,771,522 thousand (2019: EUR 1,547,405 thousand), an increase of 14.5% on the stock at the end of 2019.

Credit portfolio (in EUR million)



Target groups of final beneficiaries

In 2020 SID Bank funds were used for loans in the amount of EUR 424.6 million concluded directly, in co-financing with commercial banks and via on-lending through intermediary banks. The enhanced level of financing in 2020 was also reflected in a 21% increase in the number of SID Bank's customers, 30% of which were new customers.

There were 1,357 final beneficiaries financed indirectly via commercial banks and savings banks, and 727 borrowers financed directly by the Bank as at 31 December 2020. The funds were earmarked primarily for job preservation and creation, the financing of the current operations of primarily small and medium-sized enterprises, the internationalisation of business, the promotion of investments, research, development and innovation, an improved (education, municipal, etc,) infrastructure, energy efficiency, renewable energy sources, the reduction of pollution and increased environmental protection.

In terms of the primary purpose, the development of economic competitiveness accounted for 54% of new loans in terms of total value, regional development for 39%, the development of a knowledge society and innovative entrepreneurship for 5% and the development of an environment-friendly society for 2%.

In terms of company size, a total of 21 large enterprises received financing in the amount of EUR 168 million, 344 SMEs received financing in the amount of EUR 195 million, 33 sole traders received financing in the amount of EUR 6 million and 24 other entities, including 15 municipalities, received financing in the amount of EUR 55 million in 2020.

In the regional breakdown of loans approved in 2020 for borrowers established in Slovenia, borrowers from Central Slovenia accounted for the largest proportion (43%), followed by borrowers from the Savinjska region (16%), the Gorenjska region (8%), the Coastal-Karst region (6%) and other regions (27%).

Companies in the manufacturing sector were prevalent among borrowers in 2020 (32% of new loans in terms of value), followed by hospitality sector (18%), public administration and defence and compulsory social security (12%), transport and storage (11%), wholesale and retail trade and repair of motor vehicles (10%), the supply of electricity, gas and steam (7%), and other sectors.

Indirect financing

A significant portion of financing of final beneficiaries (sole traders, cooperatives, SMEs, mid-caps, large enterprises and municipalities) is being carried out on the basis of long-term purpose-specific financing via commercial banks and savings banks. The latter in the role of intermediaries thus remain the most important partners in the financing of final beneficiaries, while public funds are also involved in intermediation. In this process, SID Bank combines and ensures the benefits of financing are transferred on the basis of long-term borrowing at development banks and other sources of funding. In combination with offering additional services to financial intermediaries (commercial banks, savings banks and public funds), it further strengthens its role as the central public financial institution for promoting the economic development and the financing of the economy.

Credit lines that are mediated via commercial banks and savings banks are adjusted to the method of financing and to the specific conditions of purpose-specific financing. The terms for final beneficiaries are also formulated accordingly.

Loans to commercial banks and savings banks accounted for 38% of SID Bank's credit portfolio at the end of 2020 (2019: 47%). The stock of those loans amounted to EUR 679,962 thousand, a decrease of 7.0% on the stock at the end of 2019, which is primarily a reflection of the focus on intensifying the use of available funds at intermediary banks and savings banks, as well as the situation on financial markets and the accompanying use of instruments in the scope of financial programmes that are available within the FI 2014–2020 Fund of Funds and the COVID-19 Fund of Funds.

SID Bank continued to enhance its cooperation with commercial banks and savings banks in 2020 which, taking into account the regulatory framework, included the adjustment and optimisation of the existing range of products and services, the simplification of implementation, and the strengthening of administrative-technical support for financial intermediaries aimed at intensifying digitalisation, the provision of indirect financing, marketing activities, etc. On the basis of strategic policies and a selection of measures for the adjustment of the business model for operations via commercial banks and savings banks, SID Bank's activities in 2020 focused on the development of new ways to on-lend funds to final beneficiaries via commercial banks and savings banks, and a broad selection of products whose purpose is in line with the ZSIRB.

SID Bank developed a new financing programme in 2020 for banks that is based on the ability to select the level of interest rate in accordance with the dynamics of on-lending funds to final beneficiaries. SID Bank therefore tracked the needs and wishes of the banking environment for the greater flexibility and price competitiveness of products, in the context of the simultaneous pursuit of the quicker placement of funds in the real sector. It also introduced a new financial programme using funds from the European Investment Bank in the amount of EUR 50 million earmarked for corporate liquidity needs under adjusted terms and conditions. Existing indirect financing products intended for corporate liquidity needs were adapted for the purpose of mitigating the financial consequences of the COVID-19 pandemic on the economy and for financing in combination with the use of the Slovenian government guarantee scheme under the ZDLGPE. SID Bank facilitated the 100% financing of project costs and the possibility of a moratorium, and extended the purpose of loans to include refinancing. SID Bank also provided commercial banks and savings banks possibility of arranging existing and securing new indirect financing operations by ensuring compliance with the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), which contributes to the preservation of long-term funding and thus the stability of the banking system.

The adjustment of financial instruments will have a significant impact on the preservation and stimulation of the placement of SID Bank funds via commercial banks and savings banks, especially in terms of its role as the operator of funds of funds, the instruments within the funds of funds and the implementation of financial engineering instruments, where significant emphasis will be placed on the financing of green economy projects.

SID Bank will continue to expand its range of products and services in 2021 for commercial banks and savings banks with products that will focus on the take-up of risks and guarantees due to the high level of liquidity on the banking market.

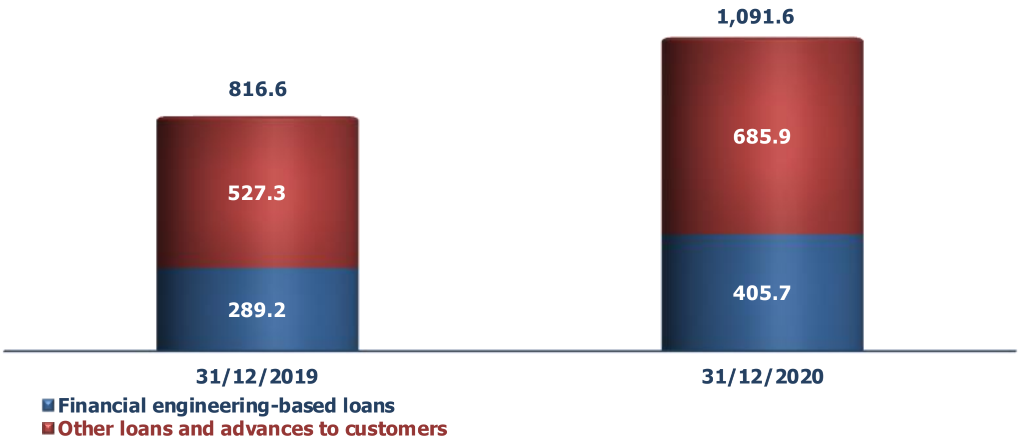
Direct financing

The direct financing of non-bank customers is carried out independently via purpose-specific financial engineering loan funds and own sources, and via various forms of co-financing with commercial banks. Other forms of direct financing include export credits, the financing of municipalities, project financing, accession to debt, the purchase of receivables, etc.

The largest category within direct lending to companies and other customers in 2020 was financing in the scope of financial engineering measures, specifically programmes for financing the operations of SMEs, investments and working capital for the sustainable growth of Slovenian tourism, investments and employment, and development and innovation, and the financing of investments and working capital in the forest-wood processing chain. In addition to dedicated lines, a significant proportion of direct financing was accounted for by the co-financing of major investment and infrastructure projects, and green economy projects.

The continued development and implementation of direct financing programmes will be based on the needs of the economy, gaps and the supplementation of the product range of commercial banks and public funds, in terms of the Bank’s intervention and counter-cyclical role and development role, for an easier, more rapid, digital and green economic recovery. Planned to that end are various financial instruments in several areas in the form of instruments at the EU level, financial engineering instruments for the financing of investments and the circular economy, loans with the co-take up of risks, etc.

Loans and advances to customers (in EUR million)



Loans to customers amounted to EUR 1,091,560 thousand at the end of 2020, an increase of 33.7% relative to the end of 2019. The proportion of the credit portfolio accounted for by the aforementioned loans increased by 9 percentage points in 2020 to 62%.

Products based on financial engineering from national budget funds

For the implementation of financial measures of national and European public policies, SID Bank implements a set of financial instruments that are based on refundable forms of incentives with a combination of own, budgetary and other favourable sources of funding, and for which state aid schemes (the EC's temporary framework and GBER) and *de minimis* aid are notified.

In the scope of implementing financial engineering measures in which the MEDT participates, SID Bank provides long-term sources to financing micro, small and medium-sized enterprises and large enterprises, as well as cooperatives and the development projects of companies. This was the most important direct financing instrument in terms of the Bank's intervention role in 2020.

In 2020 the Bank offered eight programmes whose funds could be obtained by companies directly from SID Bank:

- "MSP 8": a programme for financing SMEs with a maturity of three to ten years, a maximum moratorium period of half of the loan maturity, and loan amounts of EUR 100 thousand to EUR 5 million. The funds are earmarked for financing tangible fixed assets, intangible assets, materials, services, small inventory, merchandise and labour costs. The net stock of loans granted amounted to EUR 41.7 million at the end of 2020.
- "MSP 9": a programme for financing SMEs with a maturity of two to twelve years, and loan amounts of EUR 100 thousand to EUR 5 million for companies dealing with the liquidity consequences of the COVID-19 pandemic, and for those companies that produce products or provide services that contribute to treating and preventing the spread of COVID-19 in the provision of public health services. The programme facilitated the raising of loans to finance operations under two state aid schemes (*de minimis* and the EC's temporary framework). The net stock of loans granted amounted to EUR 37.6 million at the end of 2020.
- "NALOŽBE 1": a programme for financing investment projects in the real sector, which is earmarked for financing investments in tangible fixed assets and intangible assets in Slovenia, with a maximum loan amount of EUR 10 million with a maturity of six to twenty years, with a maximum moratorium period of half of the loan maturity, but no more than five years. Using loans of this type, firms can expand and technologically update their production and service capacities, thereby strengthening their competitiveness; the net stock of loans granted amounted to EUR 81.1 million at the end of 2020.

- "LES 1": a programme for financing investments in the forestry and wood processing chain, which is earmarked for financing the construction of new or the technological modernisation of existing wood processing plants, new technological equipment for a new production process and the development or production of new wood products, and the financing of operating costs. Loan amounts range from EUR 100 thousand to EUR 5 million, with a loan maturity of two to twenty years, and a maximum moratorium period of half of the loan maturity, but no more than six years. The net stock of loans granted amounted to EUR 3.9 million at the end of 2020;
- "TURIZEM 1": the programme for financing investments and working capital for sustainable growth in Slovenian tourism was adapted to the needs of companies due to the COVID-19 epidemic and is earmarked for financing investments in tangible fixed assets and intangible assets in Slovenia in the areas of accommodation capacity, sports, entertainment or cultural infrastructure, cable cars, marinas or tourist resorts, and the financing of working capital for companies that perform hospitality services and travel agency activities, with a maximum loan amount of EUR 20 million, a maturity of two to thirty years, and a maximum moratorium period of half of the loan maturity, but no more than five years. The net stock of loans granted amounted to EUR 58.8 million at the end of 2020;
- "RRI 3": a programme for financing technological development projects in amounts of EUR 100 thousand to EUR 15 million, with a maturity of six to twelve years and a moratorium on the repayment of principal. Through this programme, SID Bank financed research and development or investment projects with the aim of technological, procedural or organisation innovation. Funds were earmarked for the financing of costs in connection with an investment, while loans could be raised in accordance with three types of state aid (*de minimis*, GBER and the EC's temporary framework). The programme had not yet been activated (zero net stock of loans) in 2020;
- "MSP 6" and "MSP 7": programmes for financing the operations and capitalisation of SMEs and a programme for financing the investments and capitalisation of SMEs. The programmes, aimed at strengthening the capital of SMEs in the total amount of EUR 200 million, are based on the principle of favourable long-term loans of six to twelve years with a moratorium period of half of the loan maturity and a loan amount of EUR 100 thousand to EUR 5 million. In addition to the typical development effects in terms of target areas (investments and non-current working capital), the main purpose of the product is to enable firms with low capital adequacy to improve the maturity structure of their debt, to gradually strengthen their capital position and to introduce a (new) business model with good prospects. The net stock of loans granted amounted to EUR 106.7 million at the end of 2020.

The aforementioned programmes generally contain elements of state aid that are reflected in favourable interest rates on loans. The weighted average maturity of all loans was 10.9 years, while the weighted average premium over the benchmark interest rate was 1.8%.

The net stock of loans granted from all financial engineering programmes totalled EUR 405.7 million at the end of 2020. A total of 181 agreements were signed in the amount of EUR 130.8 million in 2020.

By using refundable forms of financing and combined funding, SID Bank provides more favourable lending terms for the Slovenian economy (maturity, interest rate and collateral) and a multiplier and revolving effect on state budget funds.

Direct implementation of the FI 2014-2020 Fund of Funds and COVID-19 Fund of Funds

SID Bank accelerated the implementation of activities in the scope of the FI 2014–2020 Fund of Funds in 2020, and began implementing a RDI financial instrument (available ECP funds in the amount of EUR 5 million) from the newly established COVID-19 Fund of Funds intended as an effective response to the consequences of the COVID-19 pandemic. In the scope of the FI 2014–2020 Fund of Funds, it implemented three financial instruments in the form of ECP loans for RDI (available ECP funds totalling EUR 11 million), ECP loans for the comprehensive energy renovation of public-sector buildings (available ECP funds totalling EUR 25 million) and ECP loans for urban development (available ECP funds totalling EUR 5 million). A total of EUR 6.5 million was transferred to final beneficiaries.

Financing of municipalities

In 2020 SID Bank continued the promotion of investments in local public infrastructure, local measures regarding the efficient use of energy, utilities connections and the provision of a public-owned housing fund. Funds from a loan can be used to finance a maximum of 85% of an entire project, while at least 15% must be provided by the municipality itself. Municipalities frequently obtain the majority of funds from non-refundable EU funding and the government, using SID Bank's loans to obtain the other required long-term funds.

In 2020 the existing framework for the financing of municipalities was supplemented with a framework for financing the general government sector and a protocol for financing the local government sector. SID Bank thus expanded its range of borrower target groups in this segment and provided additional capacities for the long-term financing of the public infrastructure.

SID Bank is also implementing pilot projects in the area of organising technical assistance and other types of advisory services for municipality projects, the sustainable development of individual municipalities and financial engineering.

The net stock of direct financing in this segment amounted to EUR 108.3 million at the end of 2020.

Infrastructure financing

In 2020 SID Bank continued efforts to establish a mechanism for the financing of strategic investments as one of the most important objectives of the Republic of Slovenia and the EU. To that end, the Bank monitors needs and gaps in connection with the infrastructure.

In order to improve the logistics, utilities and other commercial and public infrastructure in Slovenia, SID Bank financed investments in this type of infrastructure, in collaboration with commercial banks or independently, and thus contributed to more balanced and faster regional development. In addition to its other funding, the Bank also used funds from loans from development-focused international financial institutions, and thus secured long-term funds under favourable terms for the development of infrastructure projects.

The net stock of direct financing in this segment amounted to EUR 275.4 million at the end of 2020.

Export financing

SID Bank's support of international cooperation and the export economy continued in 2020 with an emphasis on long-term financing, which allowed Slovenian companies to enter and operate on foreign markets, as well as investments that will facilitate long-term growth in exports and the internationalisation of the economy. It also continued activities to promote joint ventures on third markets with domestic, foreign or international entities.

SID Bank also promotes the financing of exports through commercial banks to which it provides the necessary funding sources to support Slovenian exporters, and the direct financing of companies in the scope of other programmes whose export strategies on markets outside of the EU and OECD represent an important element of export financing.

SID Bank will continue to implement activities that will facilitate competitive terms and conditions, and easier integration into international commercial flows and inclusion in value chains. The development of concessionary loans, taking into account the need to finance development projects in developing countries and the creation of links between Slovenian stakeholders in this area were amongst key activities.

The net stock of direct financing in this segment amounted to EUR 107.6 million at the end of 2020.

Project financing and consultancy

SID Bank strengthened its project financing and consultancy activities in 2020. Via the project and export financing department, it focuses its consultancy services on solving one of the key challenges in the area of implementing infrastructure projects, i.e. faster and more effective preparation. In addition, the Bank successfully completed a technical assistance project in the scope of the Investment Plan for Europe, based on which the department strengthened the local EIAH and facilitated the preparation and implementation of strategic investments important to Slovenia's development.

SID Bank is included in the development of investment and projects in the initial phase through the work of its project office. This includes the systematic review of the market, the identification of potential investors and the provision of the necessary consultancy and technical support. A single access point is also in place for investors, as the Bank provides them with professional and technical assistance in the development of projects according to their needs. The Bank monitors projects and their development over the entire cycle, from the identification of the project until the phase in which projects can be financially structured and thus prepared to receive financing.

Equity financing programme

By the end of 2020, three years after the inception of the 15-year SEGIP, firm commitments were given for the investment of two-thirds of the funds from the SEGIP (approximately EUR 68 million of the EUR 100 million in available funds; the EIF and SID Bank each contribute EUR 50 million of that amount). Commitments were given to private equity funds, which then invest these funds over a four- to five-year period in companies, or directly to Slovenian companies via co-investment. A total of EUR 50 million of the aforementioned funds is earmarked for Slovenian private equity funds that are managed by the Slovenian companies ALFI PE d.o.o., Ljubljana and Generali Investments d.o.o., Ljubljana.

Together, the EIF and SID Bank committed to invest EUR 25 million into the ALFI PE SIS private equity fund. This triggered the interest of other private investors who committed to invest an additional EUR 45 million into the fund, thus the total commitments of the fund rose to EUR 70 million in November 2020. At least 75% of the fund's assets will be earmarked for Slovenian companies in the form of equity financing, which is more than four times the amount of SID Bank's funds.

The EIF and SID Bank each committed to invest EUR 12.5 million into the Slovenian Generali Growth SIS fund (for a total of EUR 25 million), while private investors committed to invest an additional EUR 40 million into the fund. The fund thus reached its maximum planned size of EUR 65 million by the end of summer of 2020. At least 70% of those funds are earmarked for Slovenian companies, which is nearly four times the amount of SID Bank's funds.

Leverage is also ensured via other SEGIP investments. Within the co-financing activities, close to EUR 1.5 million in additional payments were made to Slovenian companies in 2020, meaning that two Slovenian companies were recapitalised in the amount of around EUR 12.5 million by the end of 2020 (of which SID Bank and the EIF together accounted for close to EUR 7.5 million).

In terms of investing in foreign private equity funds, SID Bank signed a commitment to pay into a private equity fund with a focus on equity investments in Central and Eastern Europe (CEE) for the purpose of the equity financing of Slovenian companies in the amount of at least EUR 10 million.

Other financing

By using long-term sources of funding, in cooperation (primarily via co-financing) with other banks, and individually, SID Bank complements the range of services of commercial banks in all areas for which it can provide support in accordance with the ZSIRB, in particular in the areas of energy efficiency, the circular economy, environmental protection, promotion of the internationalisation of companies, competitiveness, employment, technological development, research and innovations, and the provision of housing for vulnerable groups. To that end, it employs various financing instruments, such as purpose-specific loans to commercial banks, syndicated loans, independent direct financing, the purchase of receivables, accession to debt and other forms of risk take-up and project financing.

Operations under Republic of Slovenia authorisation

Insurance against non-marketable risks

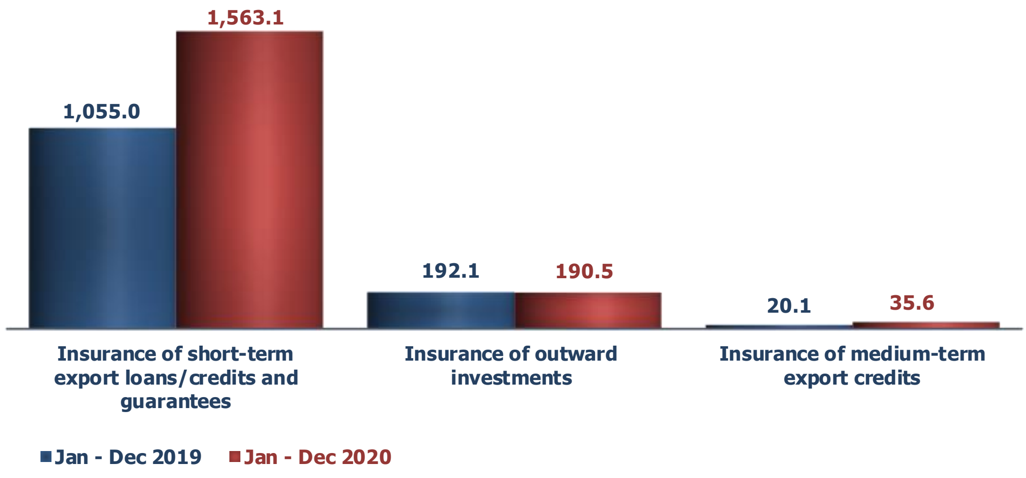
As an authorised institution, in the name and on behalf of the Republic of Slovenia, SID Bank insures/reinsures against those commercial and non-commercial or political (non-marketable) risks that, due to their nature and level of risk, the private sector in general is not willing to take up or has limited capacity to take up. Prior to the outbreak of COVID-19, only those commercial and political risks with a maturity of more than two years in OECD or EU Member States and all risks in countries outside the OECD and the EU were deemed non-marketable.

With the outbreak of COVID-19, conditions relating to insurance operations changed significantly. In its communication regarding the temporary state aid framework to support the economy in the context of the COVID-19 outbreak, the European Commission recognised as temporary non-marketable claims of shorter maturity against debtors from EU and OECD Member States. As a result, all claims against foreign debtors became non-marketable, regardless of their maturity, which had a significant impact on the level, structure and maturity of insurance/reinsurance operations, as explained below.

Volume of insurance operations

The volume of operations amounted to EUR 1,789,147 thousand in 2020, an increase of 41.2% relative to the previous year. Higher insurance volumes were realised, primarily in short-term operations, particularly in the reinsurance of short-term credits. The insurance of bank guarantees, where numerous small-value transactions was insured, was predominant in terms of the number of issued insurance policies.

Volume of insurance operations by type of insurance (in EUR million)



The realised volume in 2020 was equivalent to 15.2% of the limit on new annual liabilities set out in the ZZFMGP. Reinsurance of short-term export credits accounted for the largest proportion of the volume of insurance and reinsurance operations at 85.3% (renewable insurance of short-term non-marketable risks), followed by insurance of outward investments

(10.6%), while the remainder was accounted for by other short-term and medium-term insurance (the insurance of short-term credits and medium-term guarantees, the insurance of medium-term credits for preparations for exports, the insurance of medium-term credits and short-term guarantees, and the insurance of short-term credits for preparations for exports).

There was no significant change in the breakdown of insurance by country. The largest proportion in 2020 related to the insurance operations in Russia (29.7%), followed by Serbia (10.9%), Ukraine (8.0%), Bosnia and Herzegovina (6.1%), Croatia (5.7%), the USA (3.8%), North Macedonia (2.7%), Turkey (2.6%) and Italy (2.3%).

The majority of export financing insurance was concluded for transactions in Eastern Europe, where Ukraine and, to some extent, Belarus stand out in terms of insurance business generated. A large number of policies for the reinsurance of short-term transactions were concluded in Russia, where the majority of export transactions were accounted for by pharmaceutical products and household appliances. A significant portion of insurance and reinsurance business was also generated for receivables in relation to debtors from the countries of the former Yugoslavia, where the majority of export transactions were likewise of a short-term nature.

In addition to traditional markets (Eastern Europe and the countries of the former Yugoslavia), the markets of Central Asia and Western Sub-Saharan Africa also point to good outlooks in the near future for the transactions of Slovenian exporters. The main subject of those exports are technologically advanced and sophisticated products, where Slovenian quality prevails over Chinese price competitiveness. Slovenian companies enjoy the best position in Ghana, in particularly due to good relations between SID Bank and the Ghana export bank (GEXIM). The situations in Rwanda and Uganda have developed favourably, but the implementation of projects has been delayed due to the COVID-19 pandemic. Opportunities have also been identified in Nigeria where projects that exceed the credit potential of the Slovenian banking system in terms of size are in play.

Interest in credit and investment insurance rose with the outbreak of COVID-19. Banks have primarily opted for the insurance of export instruments, in particular bank guarantees and pre shipment financing. The majority are low-value transactions. For larger transactions, primarily in the structuring of export financing projects, commercial banks require the professional support of SID Bank or other foreign export banks.

Taking into account corporate demand, it is possible to expect the most significant business opportunities in export financing insurance, but only a few transactions were successfully realised. These transactions are complex in terms of how they are structured, are accompanied by complex risks and include many stakeholders, and therefore require a great deal of time and knowledge. It will be necessary to support cooperation between commercial banks in this area in the future, and include foreign banks in banking consortiums, particularly if high-value transactions are involved. This will lead to the appropriate exchange of knowledge between banks in this area, resulting in an increased number of banks on the market capable of executing such transactions independently.

It remains a challenge to provide insurance support for SME exporters, which SID Bank will encourage to engage in joint export ventures in order to generate the required financial strength.

Due to the outbreak of the COVID-19 crisis, SID Bank has given top priority to the Bank's intervention and counter-cyclical role. It adapted certain existing insurance programmes and created several new programmes, which was reflected in the increased volume of new insurance transactions with the aim of providing prompt assistance to the economy. Important in terms of the provision of new products developed in 2020 to counter the COVID-19 pandemic was the insurance of advances for the supply of goods. For the effective execution of reinsurance transactions during the COVID-19 pandemic, a new reinsurance agreement was signed with Zavarovalnica Triglav, while an annex to the quota reinsurance agreement with

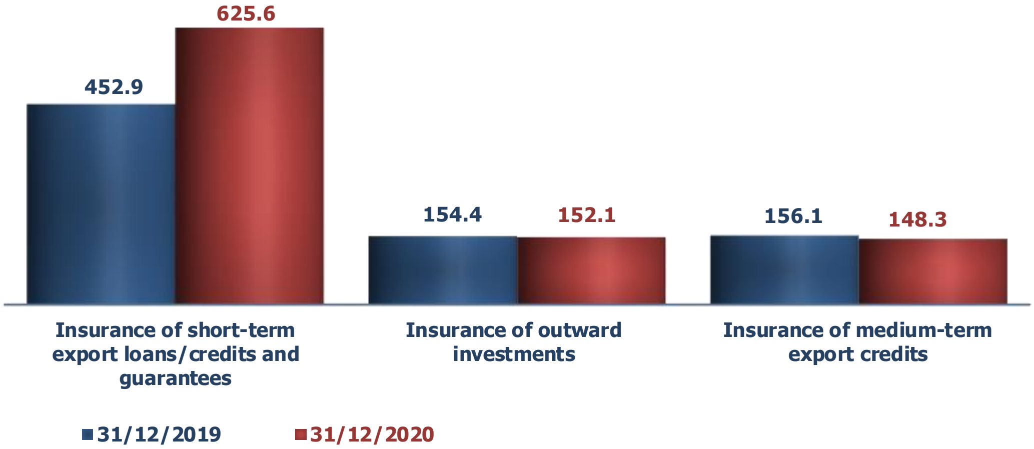
Coface PKZ was concluded. Those two companies reinsure certain limits vis-à-vis debtors from EU and OECD Member States via SID Bank during the validity of EU measures on the classification of EU and OECD Member States to non-marketable countries. Two special programmes were developed on account of the COVID-19 pandemic: (i) the insurance of bank guarantees that offered the additional insurance of payment guarantees and (ii) the insurance of credit lines for exporters, longer maturities being the main difference from the existing programme.

SID Bank will continue with development in the area of insuring domestic risks (export preparations, bank guarantees, etc.). Special attention will be given to ensuring that Slovenian companies are subject to the same state measures as foreign competitors in the area of insurance and reinsurance during the COVID-19 pandemic and while the measure deeming all foreign risks non-marketable is in place. SID Bank will also prepare all mechanisms for the successful insurance and reinsurance of domestic risks, if the aforementioned measure is deemed useful for the Slovenian economy. Over the long term, SID Bank will remain focused on medium-term operations, where the insurance of transactions in Asia and Africa is planned in addition to transactions on the markets of Eastern Europe and the former Yugoslavia. It is, however, aware that the insurance and financing of transactions on those markets is even more demanding due to the COVID-19 pandemic.

Exposure

Exposure from current insurance policies amounted to EUR 898,778 thousand at the end of 2020. Exposure from firm insurance commitments, which under the ZZFMGP is included in the total net exposure, amounted to EUR 27,297 thousand. Total exposure from insurance operations on behalf of the state and from issued firm insurance commitments amounted to EUR 926,075 thousand, an increase of 21.3% relative to the end of 2019. The increase in exposure was primarily attributable to the increase in the volume of reinsurance and insurance operations.

Exposure by type of insurance (in EUR million)



The exposure amount represents 44.1% of the limit defined in the Implementation of the Republic of Slovenia Budget for 2020 Act (ZIPRS) and 2.6% of the limit defined in the ZZFMGP.

The largest exposures in the insurance portfolio in 2020 were disclosed against Russia, Belarus, Croatia, Serbia, Ukraine, the USA, Bosnia and Herzegovina, Italy, Romania and Germany.

Other insurance-technical provisions

in EUR thousand	31 Dec 2020 or Jan-Dec 2020	31 Dec 2019 or Jan-Dec/2019	Index 2020/2019
Premiums and commissions	5,434	5,744	94.6
Potential claims	107	293	36.5
Claims under consideration	1,737	1,544	112.5
Claims paid	(104)	(32)	325.6
Recourse	1,040	151	688.9
Insurance technical result	5,127	5,180	99.0
Investment income	578	1,091	53.0
Surplus of income over expenses	5,705	6,271	91.0

Premiums and fees from insurance against non-marketable risks amounted to EUR 5,434 thousand in 2020, a decrease of 5.4% relative to 2019. The lower insurance premium is the result of a change in the structure of realised insurance transactions. A significantly higher volume of short-term insurance operations and fewer medium-term operations were realised in 2020 relative to the previous year. The premium rates for short-term insurance are lower than those for medium-term insurance, and consequently premiums are also lower.

The insurance and reinsurance of short-term export credits accounted for the highest proportion of paid premium, followed by premiums from investment insurance and the insurance of medium-term credits.

Income from processing fees is negligible because SID Bank includes the amount in the premium in the case of individual export operations or investments in accordance with its business policy and current price lists.

Claims paid amounted to EUR 104 thousand in 2020, an increase relative to the previous year (2019: EUR 32 thousand). Five minor claims from the reinsurance of short-term credits were paid, while the remainder relates to costs of the recovery of paid claims from previous years.

Claims under consideration (claims filed) amounted to EUR 1,737 thousand as at 31 December 2020, an increase of EUR 193 thousand relative to the end of 2019.

At EUR 107 thousand, potential claims in 2020 were down by EUR 186 thousand on the 2019 figure, and relate exclusively to the reinsurance of short-term credits.

The insurance technical result in 2020 was EUR 5,127 thousand (2019: EUR 5,180 thousand). The surplus of income over expenses amounted to EUR 5,705 thousand (2019: EUR 6,271 thousand).

Contingency reserves

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

Contingency reserves were up EUR 5,704 thousand in 2020 relative to the previous year as a result of a positive operating result.

Insurance against non-marketable risks by type of insurance

Insurance of short-term export loans/credits and guarantees

Short-term insurance in the insurance and reinsurance of export credits, guarantees and export preparation amounted to EUR 1,563,070 thousand in 2020, an increase of 48.2% relative to the previous year. The majority of short-term insurance relates to the reinsurance of short-term revolving export credits on the basis of reinsurance contracts and annexes to contracts that SID Bank concluded with Coface PKZ and Zavarovalnica Triglav in 2020. Only a small proportion relates to insurance of individual export transactions.

The volume of short-term insurance operations realised in 2020 primarily related to export transactions in Russia, Serbia, Ukraine, Bosnia and Herzegovina, Turkey, North Macedonia, Italy and Romania. The value of insured export operations vis-à-vis debtors from other countries was lower. Exposure from these operations, including commitments, stood at EUR 625,624 thousand at the end of 2020, an increase of 38.1% relative to the end of 2019 (EUR 452,896 thousand).

The increase in the volume of short-term insurance operations in 2020 was only partially tracked by realised insurance premium, which was up by 29.5% to stand at EUR 2,790 thousand. The reason lies in the higher proportion of the insurance portfolio accounted for by debtors with higher credit rating from EU and OECD Member States, for whom the price of risk insurance is significantly lower than outside the EU and OECD.

Despite a major increase in the scope of insured receivables, the number of exporters fell, while insurance operations were concluded with an increasing number of foreign debtors, resulting in the increased diversification of risks taken up in terms of the insurance of receivables.

The year 2021 will be a major challenge for open, export-oriented economies like Slovenia. Business developments will be largely determined by the situation in connection with the COVID-19 pandemic and the associated validity of measures under which short-term claims against debtors from EU and OECD Member States are deemed non-marketable. A similar volume of operations to that of 2020 is planned for 2021.

Insurance of medium-term export credits

The largest proportion of insured medium-term export credits, bank guarantees and export preparation loans in 2020 related to exports of communications and other electrical devices, tools and machinery, engineering and technical consultancy services, and construction. The largest share of medium-term operations was insured for receivables from customers from the USA, Ukraine, the Netherlands, Russia, Switzerland, Rwanda, Hungary, Germany, Singapore and the UAE. The stock of insured medium-term export credits is subject to major fluctuations from year to year, due to the small number of annually implemented projects and their size.

The volume of insurance operations realised for medium-term export transactions (export credits, bank guarantees and export preparation loans) in 2020 was up relative to the previous year and stood at EUR 35,608 thousand (2019: EUR 20,061 thousand).

As at 31 December 2020, exposure from the insurance of medium-term export credits, bank guarantees and pre shipment financing (concluded insurance policies and commitments) amounted to EUR 148,315 thousand, with Belarus prevailing among countries in terms of exposure with a 56.3% share. Premiums from this insurance amounted to EUR 1,451 thousand in 2020. Claims paid from the insurance of medium-term export credits amounted to EUR 18 thousand in 2020.

The volume of and exposure from the insurance of medium-term transactions are expected to increase by the end of 2021. That growth estimate is based on the increased number of transactions in demand and improved turnover. It was extremely difficult for exporters to attract new customers and enter new markets due to the COVID-19 pandemic. It was thus encouraging that transactions can be secured from countries such as Uzbekistan, Turkmenistan, Nigeria and Rwanda, in addition to demand from traditional markets (Eastern and Southeast Europe). Exporters will also be active on the markets of EU and OECD Member States (the Netherlands, Germany, Italy and other countries).

Insurance of outward investments

The volume of insured outward investments reached EUR 190,469 thousand in 2020, a decrease of 0.9% relative to the previous year. Newly insured outward investments and renewals of investments insured in previous years that in terms of content can be deemed as newly insured investments are included among the stock of insurance contracts.

Exposure from investment insurance amounted to EUR 152,136 thousand at the end of 2020, a decrease of 1.5% relative to the end of the previous year. Insurance of non-shareholder loans accounts for the largest proportion of exposure. The current insurance arrangements are expiring in accordance with signed loan agreements and insurance policies.

Croatia accounts for the highest proportion of insured investments, followed by the USA, and Serbia. Premiums from investment insurance in 2020 were up 14.8% on the previous year at EUR 1,165 thousand.

The COVID-19 pandemic resulted in a great deal of uncertainty for business entities. For this reason, the latter exercise caution in their business decisions and only make urgent investments. This is particularly true for investments made abroad. It is thus understandable that the volume of investment insurance was down in 2020. In the future the business environment will remain highly dependent on events in connection with the COVID-19 pandemic which, in addition to caution in business decisions, could generate new opportunities for takeovers of markets and competitive companies. It will be important for SID Bank to develop all necessary financial instruments that will make it possible for Slovenian investors to take advantage of such opportunities.

SID Bank expects several investment operations to be realised in 2021 by Slovenian firms in former Yugoslav republics, primarily in Croatia and Bosnia and Herzegovina, while there will also be opportunities in Russia and Mexico.

FI 2014–2020 Fund of Funds and COVID-19 Fund of Funds

In line with the objectives of the Operational Programme for the Implementation of the EU Cohesion Policy 2014–2020, under the aegis of the fund of funds, for which an agreement on funding in the amount of EUR 253 million was signed with the MEDT in 2017, SID Bank provides financial products that are offered to Slovenian companies and municipalities via financial intermediaries (primarily commercial banks, savings banks and public funds).

In addition to the funds from European cohesion policy, financial intermediaries must secure additional funding from other sources due to the leverage requirement. Given the requirement for the reuse of repaid EU cohesion policy funds, financial intermediaries will provide additional funds in the amount of around EUR 150 million collectively across all years, which means that a total of more than EUR 400 million will be available to companies and other final beneficiaries within this financial framework.

By establishing the fund of funds, Slovenia took an important step towards transitioning from grants to refundable forms of support, modelled after foreign practices. These are significantly more effective than grants, primarily on account of higher leverage, multiplier effects and the revolving effect on state budget funds.

The purpose of the fund of funds created in this manner is the promotion and financing of sustainable economic growth and development, investments in innovation, and current operations, through debt and equity financing.

The financial instruments are designed in four areas where there are market gaps in financing:
– research, development and innovation,
– competitiveness of SMEs,
– energy efficiency, and
– urban development.

The main advantages of the financial instruments of the fund of funds are as follows:
– the creation of instruments in areas of identified market gaps;
– the attraction of private equity (required leverage);
– multiplier effects;
– the market appraisal of projects built into the process itself;
– better financial discipline and greater impact from supported projects;
– the sustainable and revolving character of funds (reuse of funds);
– the more effective allocation of government development funds; and
– the reduced possibility of misuse of funds and distortion of competition effects.

The financial instruments of the fund of funds provide final beneficiaries with a range of benefits, in terms of capital and lower interest rates, and in terms of longer maturities, reduced and/or zero collateral requirements, and longer moratorium periods. SID Bank also provides financial intermediaries the necessary legal and administrative-technical support.

SID Bank implemented activities in the scope of the funds of funds at an accelerated pace in 2020. Those activities included the completion of development and the launch of the ECP portfolio guarantee financial instrument that improves access to sources of financing at commercial banks and savings banks for SMEs. Three financial institutions were selected based on a public tender. Those institutions provide SMEs loans with a free SID Bank guarantee in the total amount of close to EUR 100 million.

Loans have been available since 2020 via SID Bank for the energy renovation of public-sector buildings in the amount of EUR 100 thousand to EUR 15 million, with a maturity of five to 25 years, a moratorium period of half of the loan maturity, and under less stringent collateral terms or without collateral. There will be approximately EUR 25 million available until 2023 from EU cohesion policy funds for the implementation of this financial instrument.

Loans were also available for urban development in the amount of EUR 500 thousand to EUR 7 million, with a maturity of three to 25 years and a moratorium period of half of the loan maturity, and under less stringent collateral terms or without collateral. There will be approximately EUR 5 million available until 2023 from EU cohesion policy funds for the implementation of this financial instrument. Urban municipalities, in particular, will be the final beneficiaries of this support.

Convertible loans and direct investments in equity in the form of co-financing with private investors, which is carried out via the Slovene Enterprise Fund as a financial intermediary, are available for equity and quasi-equity financing. Convertible loans are available in amounts of up to EUR 75 thousand, with a maturity of five years, and the option to extend loans for a maximum of two years and a moratorium of three years. Investments in equity range from EUR 100 thousand to EUR 600 thousand, or up to EUR 1.2 million in the event of an innovative enterprise. Investments are made for up to 10 years, with micro and small enterprises defined as their final beneficiaries. There will be approximately EUR 10 million available until 2023 from EU cohesion policy funds for the implementation of this financial instrument.

Together with the MEDT, SID Bank established the new COVID-19 Fund of Funds in 2020 in the amount of EUR 65 million from European cohesion policy funds, with the aim of financing working capital in order to improve liquidity and facilitate the recovery of the economy, which was hit hard by the COVID-19 pandemic, and the financing of investments, research, development and innovation. On this basis, the Bank has already developed and implemented two products: (i) micro loans from ECP funds in the amount of EUR 60 million to finance the required liquidity and investments of SMEs. Those loans are being provided by two financial intermediaries; and (ii) loans from ECP funds in the amount of EUR 5 million for research, development and innovation. Those loans are intended for companies of all sizes and are provided directly by SID Bank. Together with additional funds from participating institutions, a total of EUR 95.1 million will be available to companies. With the establishment and implementation of the new COVID-19 Fund of Funds, SID Bank is supplementing the range of measures for an effective response to the COVID-19 pandemic in a significant way, while contributing to the use of ECP funds. As the manager of the COVID-19 Fund of Funds, SID Bank drew down two of four tranches of European cohesion policy funds in 2020. In the scope of the implementation of financial instruments from both funds of funds, 3,774 transactions in the total amount of EUR 161.5 million were concluded via all financial intermediaries, including SID Bank, by the end of 2020.

Performance of the function of official auctioneer at emission allowance auctions

Pursuant to the Environmental Protection Act, SID Bank continued its function as the official auctioneer of greenhouse gas emission allowances in 2020 in accordance with Commission Regulation (EU) No 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances in the name and on behalf of the Republic of Slovenia pursuant to Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowances trading, as amended by Commission Regulation (EU) 1210/2011.

In auctions organised by the joint auctioning system of EU members (the European Energy Exchange), SID Bank sells emission allowances on behalf of the Republic of Slovenia as 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.

The Bank participated in 139 auctions as an official auctioneer of emission allowances (*European Emission Allowances*) in 2020, at which a total of 2,668 thousand allowance units were sold. The consideration amounted to EUR 64,876 thousand.

Six auctions for EU aviation allowances (*European Aviation Allowances*) were also held in 2020. A total of 6,500 units were sold for consideration of EUR 154 thousand.

In 2020 SID Bank assumed the role of official auctioneer as set out in Commission Delegated Regulation (EU) 2019/7 amending Regulation (EU) No 1031/2010 as regards the auctioning of 50 million unallocated allowances from the market stability reserve for the innovation fund.

Guarantee schemes based on intervention measures in 2020, and guarantee schemes and sureties for investments

In accordance with its legal authorisations under the fifth paragraph of Article 65 of the ZIUZEOP and under the fourth paragraph of Article 7 of the ZDLGPE, SID Bank began keeping records in 2020 of data regarding Slovenian government guarantees for deferred payments of loan obligations under the ZIUOPOK with government guarantees according to Article 65 of the ZIUZEOP, and loans with government guarantees according to the ZDLGPE.

At the end of 2020 banks had 73 active loan agreements secured by Slovenian government guarantees in accordance with the ZDLGPE. The total amount of contractual principal in connection with those loans was EUR 62 million (because the majority of agreements are still in the drawdown phase, the contractual amount of principal is given and not the balance of unpaid principal).

The number of deferrals according to the unpaid balance of deferred credit obligations included in the guarantee scheme under Article 65 of the ZIUZEOP breaks down as follows as at 31 December 2020: 2,092 legal entities and 7,946 individuals and persons who perform agricultural activities. The balance of unpaid deferred credit obligations was EUR 140 million for legal entities at the end of 2020 (the guarantee balance was EUR 54 million) and EUR 23 million for individuals and persons who perform agricultural activities (the guarantee balance was EUR 11 million). The total balance of unpaid deferrals for all groups of borrowers included in the guarantee scheme under the ZIUZEOP was EUR 163 million at the end of the year (the guarantee balance was EUR 65 million).

SID Bank did not receive any requests from banks in 2020 for the payment of guarantees in respect of loans approved in accordance with the ZDLGPE, while it received one request for the payment of a guarantee relating to deferred credit obligations under the ZIUOPOK in connection with Article 65 of the ZIUZEOP.

In line with its legal authorisations, in 2020 SID Bank again actively managed its recovery portfolio from acts governing guarantee schemes (the Republic of Slovenia Guarantee Scheme Act, the Republic of Slovenia Guarantee Scheme for Natural Persons Act and the Republic of Slovenia Guarantees for Financial Investments by Companies Act).

The Bank handled one change in credit terms in 2020 in connection with loans approved under the Republic of Slovenia Guarantee Scheme Act. Four requests for the payment of guarantees were processed. A guarantee in the amount of EUR 0.1 million was paid out in 2020 in connection with those requests. There was one loan agreement secured by a Slovenian government guarantee still active at a commercial bank at the end of 2020 (2019: four loan agreements), while balance of principal amounted to EUR 5.4 million as at 31 December 2020 (2019: EUR 10.5 million).

SID Bank received one request for the payment of a guarantee in 2020 for loan approved under the Republic of Slovenia Guarantee Scheme for Natural Persons Act. The payment of that guarantee in the amount of EUR 524.83 will be executed in 2021.

The stock comprised 65 loans as at 31 December 2020 (2019: 72), while the total loan principal amounted to EUR 2.5 million (2019: EUR 2.8 million).

No agreements were still secured by Slovenian government guarantees under the Republic of Slovenia Guarantees for Financial Investments by Companies Act at the end of 2020, meaning that there were also no Slovenian government guarantees for that purpose.

Transparency of financial relations between SID Bank and the Republic of Slovenia

Activity (in EUR thousand)	Revenues	Expenses
Insurance operations on behalf of and for the account of the government	1,740	(1,851)
Fund of Funds	778	(980)
Guarantee schemes (under the ZIUZEOP and ZDLGPE)	387	(708)
Auctions of emission allowances	28	(28)
Other transactions under authorisation	9	(42)

The table discloses SID Bank's total (direct and indirect) income and expenses for its individual activities pursued in 2020, with the exception of new guarantees schemes (under the ZIUZEOP and ZDLGPE) for which an agreement has not yet been concluded. For this reason, income for 2020 is only disclosed in the amount of direct costs that SID Bank incurred in 2020 for the performance of that activity.

Separate financial statements are compiled for insurance against non-marketable risks and the activities of the funds of funds, in which the Bank also manages assets allocated for management.

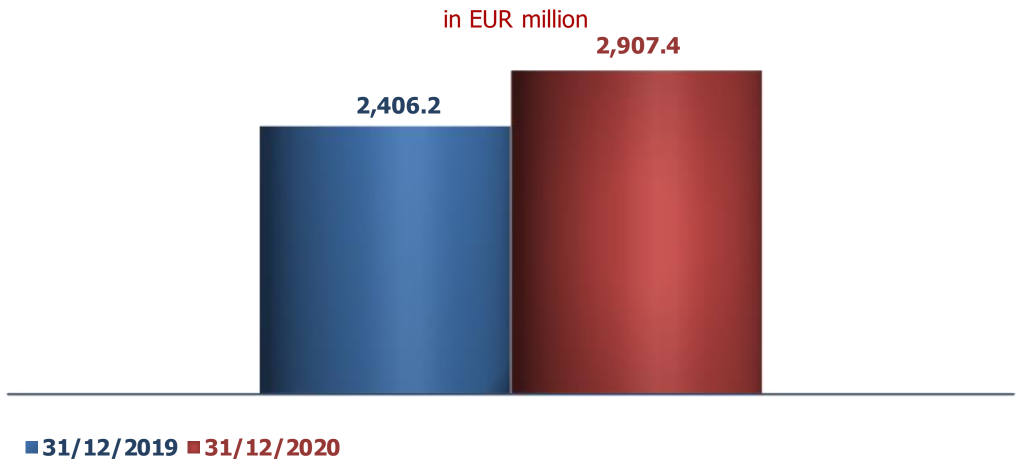
The income for an individual activity under Republic of Slovenia authorisation consists of the fees that SID Bank receives for pursuing a particular activity on the basis of contracts with the Republic of Slovenia or statutory powers. The indirect expenses for an individual activity are determined on the basis of criteria set out in the bylaw entitled Criteria for allocating indirect costs of activities under Republic of Slovenia authorisation.

On account of SID Bank's expert knowledge in the areas of publicly financed export credits, outward direct investments and fixed development aid, an agreement was concluded between SID Bank and the MEDT regarding the chairmanship of the Council of the European Union's Exports Credit Group during Slovenia's presidency of the EU Council in 2021.

The key dossiers that the presiding team from SID Bank will manage are as follows:
– the modernisation of the OECD's Arrangement on Guidelines for Officially Supported Export Credits;
– the common European timetable for the abolition of measures to contain the spread of COVID-19 in the scope of trade policy instruments;
– the EU Green Deal and adaptation to public export credits;
– adaptation of the public financing of export credits, outward direct investments and the associated official development aid to the actual needs of the Slovenian economy; and
– the increased competitiveness of European exporters and the re-establishment of global rules in the area of export credits (i.e. a global level playing field) while preserving multilateralism.

Financial position of SID Bank

Total assets

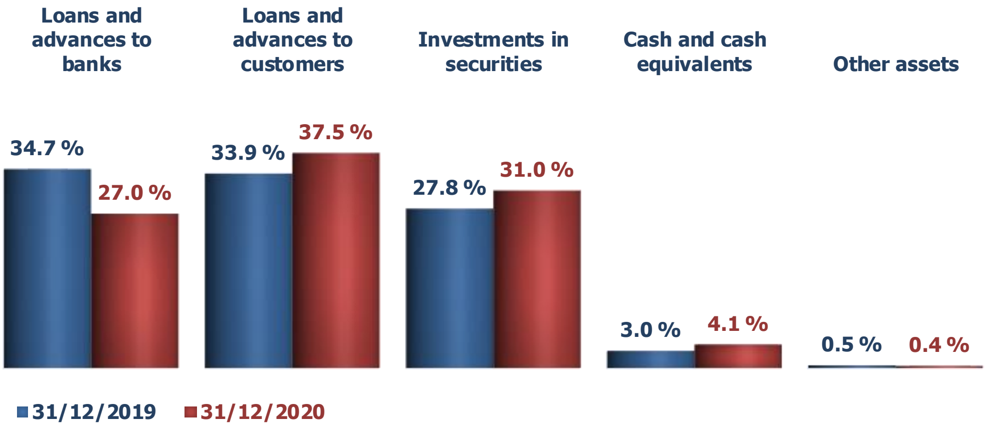


SID Bank's total assets at the end of 2020 stood at EUR 2,907,358 thousand, an increase of 20.8% relative to the end of the previous year.

Total assets were up EUR 501,194 thousand relative to 2019.

Assets

Structure of total assets



At 37.5%, loans and advances to customers accounted for the highest proportion of the Bank's assets in 2020, with growth in total assets of 33.7% during the year. The stock of loans and advances to customers stood at EUR 1,091,560 thousand at the end of 2020 (2019: EUR 816,550 thousand). Accounting for the highest proportion were loans to Slovenian non-financial corporations (82%), followed by loans to the government sector (primarily loans to municipalities and loans for the infrastructure) at 15%, while the remainder was accounted for by loans to other financial organisations, foreign non-financial corporations and loans to sole traders.

The proportion of the Bank's total assets accounted for by loans and advances to banks fell to 27.0% in 2020 (2019: 34.7%). Loans and advances to banks, which include loans and deposits, totalled EUR 783,725 thousand at the end of the year, a decrease of EUR 52,045 thousand or 6.2% relative to the end of 2019. Loans to Slovenian banks, which as financial intermediaries funnel development funds to final beneficiaries, accounted for 91% of loans and advances to banks (excluding deposits), while loans to foreign banks to finance the export transactions of Slovenian companies accounted for 9%.

Loans are broken down in detail in section entitled Financing.

Investments in securities amounted to EUR 900,538 thousand at the end of 2020 (2019: EUR 669,324 thousand). A total of 97% of investments relate to debt securities, the stock of which stood at EUR 876,566 thousand at the end of the year (2019: EUR 658,019 thousand). Debt securities are broken down in detail in the section entitled Liquid assets, and in section 3 of the financial report, Risk management.

Investments in equities relate to the Bank's holding in the European Investment Fund (EUR 6,540 thousand), investments that the Bank makes in the scope of the Slovene Equity Growth Investment Programme (EUR 9,366 thousand) and investments in the Three Seas Initiative investment fund (EUR 8,066 thousand). The equity financing programme is described in the section Financing.

The proportion of the Bank's total assets accounted for by investments in securities stood at 31.0% at the end of 2020 (2019: 27.8%).

SID Bank held EUR 120,187 thousand in balances at the central bank and at commercial banks at the end of 2020, an increase of EUR 47,458 thousand relative to the previous year. The proportion of the Bank's total assets that they account for increased from 3.0% at the end of 2019 to 4.1% at the end of 2020.

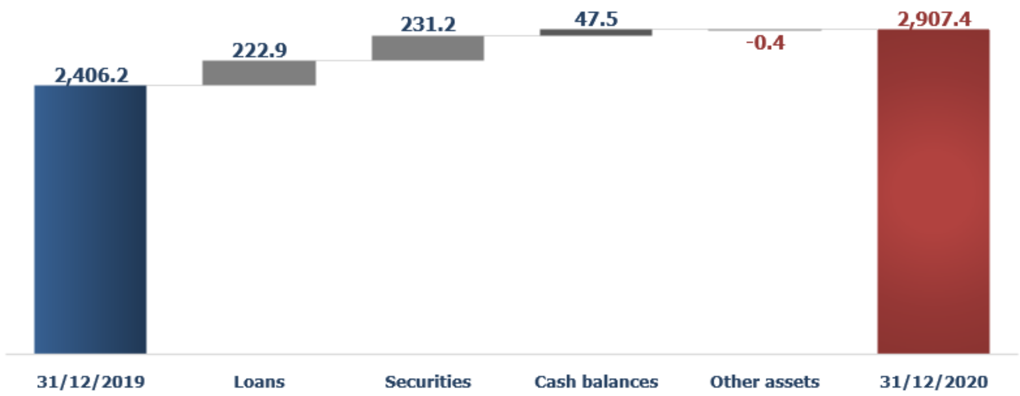
Other assets in the amount of EUR 11,348 thousand comprised:

– property, plant and equipment and intangible assets in the amount of EUR 5,328 thousand, a decrease of EUR 270 thousand relative to the end of 2019;

- corporate income tax assets in the amount of EUR 2,423 thousand (2019: EUR 468 thousand);
- hedging derivatives in the amount of EUR 1,153 thousand (2019: 0);
- other financial assets in the amount of EUR 1,230 thousand (2019: EUR 5,261 thousand); and
- other assets in the amount of EUR 1,214 thousand (2019: EUR 464 thousand).

	Actual		Index	Structure	
in EUR thousand	31/12/ 2020	31/12/2019	2020/2019	31/12/ 2020	31/12/2019
Loans and advances to banks	783,725	835,770	93.8	27.0%	34.7%
Loans and advances to customers	1,091,560	816,550	133.7	37.5%	33.9%
Investments in securities	900,538	669,324	134.5	31.0%	27.8%
Cash and cash equivalents	120,187	72,729	165.3	4.1%	3.0%
Other assets	11,348	11,791	96.2	0.4%	0.5%
Total assets	2,907,358	2,406,164	120.8		

Changes in assets in 2020 (in EUR million)

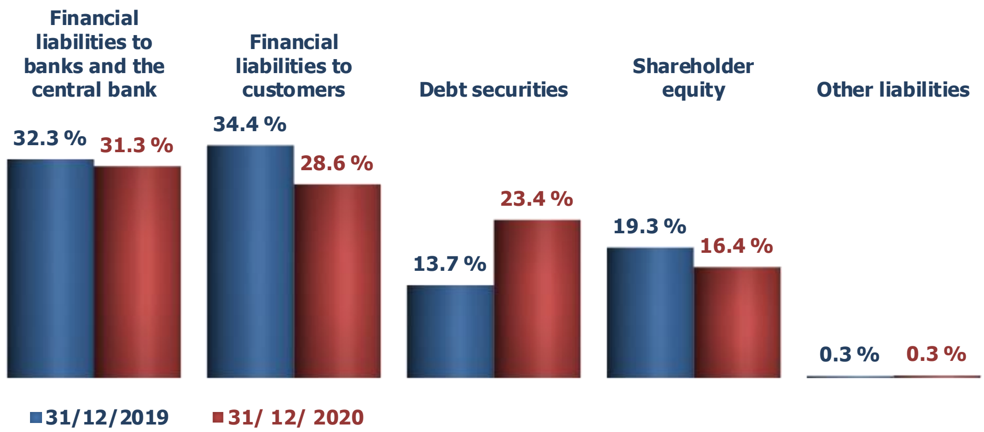


Equity and liabilities

SID Bank's equity and liabilities comprised liabilities in the amount of EUR 2,431,251 thousand and shareholder equity in the amount of EUR 476,107 thousand at the end of 2020.

Liabilities accounted for 83.6% of total equity and liabilities (2019: 80.7%), while equity accounted for 16.4% (2019: 19.3%).

Structure of total liabilities and equity



Deposits and loans by banks and liabilities to the central bank accounted for the highest proportion of total equity and liabilities (31.3%) and amounted to EUR 909,970 thousand at the end of 2020, an increase of EUR 132,058 thousand or 17.0% relative to the end of the previous year. The sharpest increase was recorded in liabilities to the central bank, which amounted to EUR 342,846 thousand at the end of the year (2019: EUR 171,201 thousand). The majority of liabilities to banks relate to long-term loans of development banks.

Liabilities to customers amounted to EUR 832,377 thousand (2019: EUR 827,545 thousand). Those liabilities include the loans of development institutions and MEDT funds relating to liabilities from the functioning of loan funds and funds of funds.

Issued securities increased by EUR 349,048 thousand or 105.7% in 2020, primarily as the result of the issue of a new bond in July. The Bank issued a bond in the nominal amount of EUR 350 million. As a result, the proportion of issued securities increased from 13.7% in 2019 to 23.4% in 2020. The stock of issued securities stood at EUR 679,327 thousand at the end of the year. In addition to the aforementioned bond, issued securities include a bond issued in 2019 in the nominal amount of EUR 200 million, a bond issued in 2018 in the nominal amount of EUR 75 million and registered bonds in the nominal amount of EUR 48 million.

For more details on sources of funding, see the section Funding.

Provisions in the amount of EUR 4,635 thousand relate to provisions for off-balance-sheet liabilities arising from guarantees and approved undrawn loans in the amount of EUR 3,191 thousand and provisions for liabilities to employees in the amount of EUR 1,444 thousand. Provisions in 2020 were up by EUR 2,261 thousand relative to the end of the previous year.

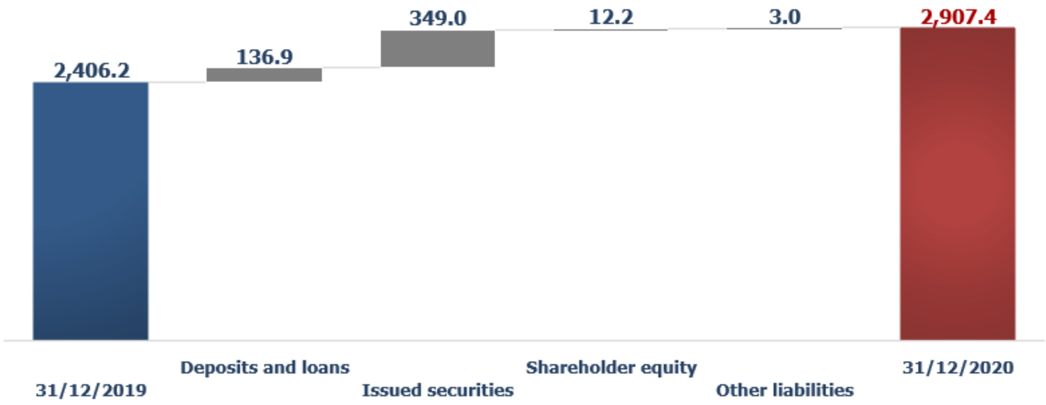
Other liabilities in the total amount of EUR 4,942 thousand comprised:

- other financial liabilities in the amount of EUR 2,879 thousand (2019: EUR 2,727 thousand);
- hedging derivatives in the amount of EUR 1,087 thousand (2019: EUR 841 thousand);
- corporate income tax liabilities in the amount of EUR 702 thousand (2019: EUR 451 thousand); and
- miscellaneous liabilities in the amount of EUR 274 thousand (2019: EUR 175 thousand).

SID Bank's equity was up by EUR 12,247 thousand or 2.6% in 2020, to stand at EUR 476,107 thousand at the end of the year. Accumulated other comprehensive income was up by EUR 3,757 thousand and profit reserves were up by EUR 21,519 thousand, while retained earnings, including net profit for the financial year, were down by EUR 13,029 thousand relative to the previous year.

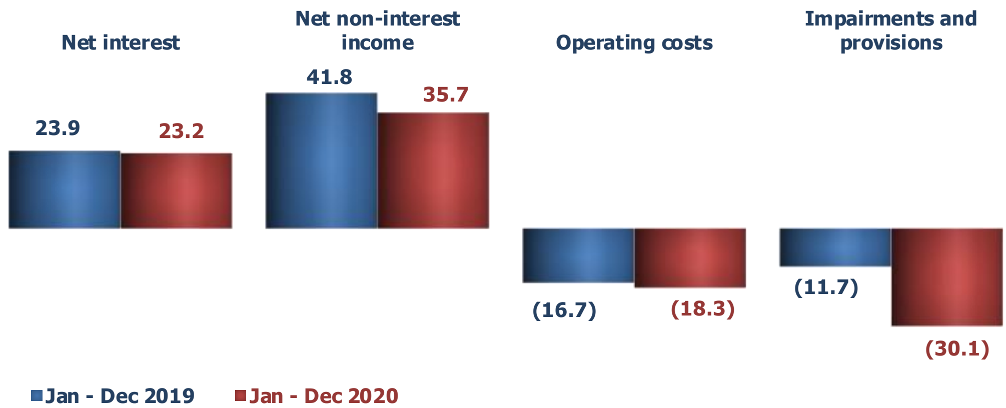
	Actual		Index	Structure	
in EUR thousand	31/12/2020	31/12/2019	2020/2019	31/12/2020	31/12/2019
Financial liabilities to banks and the central bank	909,970	777,912	117.0	31.3%	32.3%
Financial liabilities to customers	832,377	827,545	100.6	28.6%	34.4%
Debt securities	679,327	330,279	205.7	23.4%	13.7%
Shareholder equity	476,107	463,860	102.6	16.4%	19.3%
Provisions and other liabilities	9,577	6,568	145.8	0.3%	0.3%
Total equity and liabilities	2,907,358	2,406,164	120.8		

Changes in liabilities and equity in 2020 (in EUR million)



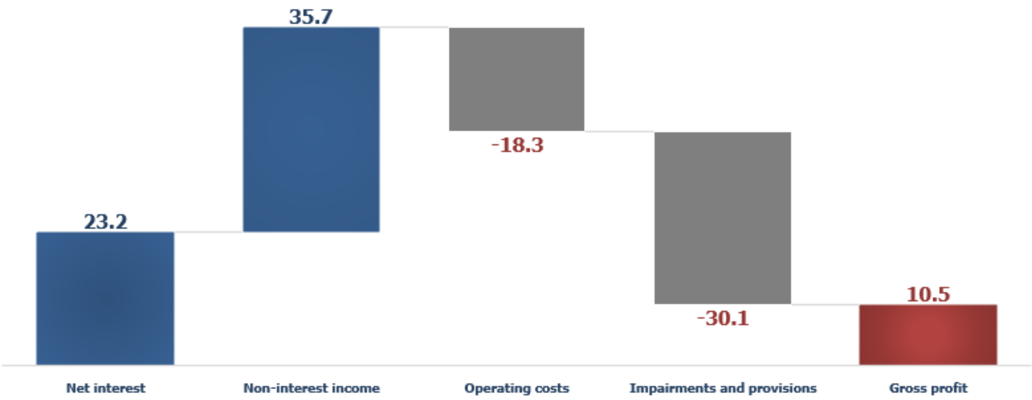
Financial results of SID Bank

in EUR million



SID Bank generated a pre-tax profit of EUR 10,462 thousand in 2020, which was reflected in a return on equity of 2.2% (2019: 8.3%). Gross profit was down by EUR 26,776 thousand relative to 2019, while net profit for the financial year amounted to EUR 8,490 thousand, a decrease of EUR 23,550 thousand relative to the previous year. The lower profit relative to the previous year was primarily the result of revenues from the sale of the then subsidiary SID-PKZ (now Coface PKZ) in 2019 and higher expenses from loan impairments in 2020. If we excluded extraordinary revenues in 2019 in the amount of EUR 15,481 thousand from the sale of SID – Prva kreditna zavarovalnica, gross profit in 2020 would have been EUR 11,295 thousand lower than the previous year, while net profit would have been EUR 8,069 thousand lower.

Composition of gross profit in 2020 (in EUR million)



Net interest

The Bank generated net interest in the amount of EUR 23,193 thousand in 2020, a decrease of 3.1% relative to 2019 (2019: EUR 23,932 thousand). The Bank's interest income amounted to EUR 28,560 thousand (2019: EUR 30,913 thousand), while interest expenses amounted to EUR 5,367 thousand (2019: EUR 6,981 thousand).

Lower net interest is the result of both extraordinary interest income for loans in 2019 due to the sale of non-performing exposures and a change in the accounting treatment of interest from non-performing loans in 2020. The Bank now discloses in interest income only that portion of paid interest that relates to the performing portion of the portfolio, while the remainder of paid interest is recognised under revenues from the reversal of impairments (for loans measured at amortised cost), or under net gains on financial assets mandatorily measured at fair value through profit or loss (for loans measured at fair value). A detailed explanation is given in point 2.5.1 of the financial report.

The Bank recorded a net interest margin of 0.9% in 2020 (2019: 1.0%). Net interest accounted for 39.4% of total net income (2019: 36.4%).

Non-interest income

Net non-interest income amounted to EUR 35,702 thousand in 2020, a decrease of EUR 6,091 thousand relative to 2019 (2019: EUR 41,793 thousand).

Lower net non-interest income was primarily the result of extraordinary revenues in 2019, i.e. net gains on non-current assets held for sale and the associated liabilities in the amount of EUR 10,063 thousand, which relate to the effects of the sale of the subsidiary SID – Prva kreditna zavarovalnica, and dividends in the amount of EUR 5,453 thousand from the Bank’s investment in the aforementioned subsidiary and an investment in the European Investment Fund.

The Bank received dividends in the amount of EUR 316 thousand in 2020.

Net fees and commission amounted to EUR 293 thousand in 2020 (2019: EUR 200 thousand).

Net gains from financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 22,962 thousand (2019: EUR 12,775 thousand) comprises:

– net gains from financial liabilities measured at amortised cost in the amount of EUR 20,900 thousand (2019: EUR 10,043 thousand), with revaluation revenues from the negative operations of loan funds accounting for EUR 20,824 thousand of the aforementioned amount. Under the contract each positive/negative financial result increases/decreases SID Bank’s liabilities to the MEDT;
– net gains on financial assets measured at fair value through other comprehensive income in the amount of EUR 2,060 thousand relating to the effects of the purchase/sale of securities; and

– net gains on financial assets measured at amortised cost in the amount of EUR 2 thousand.

Net gains on non-trading financial assets mandatorily measured at fair value through profit or loss in the amount of EUR 8,710 thousand (2019: EUR 12,704 thousand) relate to net gains from loans in the amount of EUR 9,427 thousand (2019: EUR 12,315 thousand) and net losses from investments in equity financing in the amount of EUR 717 thousand (2019: net gains in the amount of EUR 389 thousand).

The Bank recorded revenues from changes in fair value in hedge accounting in the amount of EUR 126 thousand in 2020 (2019: expenses in the amount of EUR 1,125 thousand).

The majority of other net operating income in the amount of EUR 3,851 thousand relates to income from activities under Republic of Slovenia authorisation in the amount of EUR 2,941 thousand (2019: EUR 2,504 thousand), which was up primarily due to new guarantee schemes in 2020. As a financial intermediary, the Bank generated income from fees in the amount of EUR 454 thousand for the implementation of the funds of funds, while other operating income amounted to EUR 456 thousand.

The Bank's financial intermediation margin stood at 2.2% in 2020 (2019: 2.8%).

Operating costs

The Bank's operating costs amounted to EUR 18,312 thousand in 2020, an increase of 9.4% relative to 2019. The main factors in higher costs were labour costs and a change in the treatment of taxes and membership fees, which are now included in administrative costs but were included in non-interest expense in 2019.

Growth in labour costs was linked to the Bank's development activities and recruitment. The number of employees was up by 22 relative to the end of 2019, as the result of the increased scope of work, as the Bank's counter-cyclical role was seen during the pandemic in the expansion of its financing programmes and the introduction of new products. The Bank's activities thus included cooperation with the MEDT in the establishment of the new COVID-19 Fund of Funds. In the scope of the FI 2014–2020 Fund of Funds, it completed development and began to implement the ECP portfolio guarantee financial instrument for SMEs, introduced a special top-up scheme for the reinsurance of short-term trade claims against customers from EU and OECD Member States, and drafted a scheme for the reinsurance of domestic claims and upgraded technical support for managing loans in accordance with the ZIUOPOK. In cooperation with commercial banks, it established technical support for the implementation of government guarantee schemes, while it earmarked significant resources for the upgrading of protective systems with the aim of ensuring information security.

Administrative costs amounted to EUR 17,342 thousand, with labour costs accounting for EUR 13,184 thousand of the aforementioned amount (2019: EUR 11,540 thousand). The costs of services were down relative to the previous year and amounted to EUR 3,665 thousand (2019: EUR 3,869 thousand), while the costs of material amounted to EUR 165 thousand (2019: EUR 153 thousand). Taxes and membership fees, which were included in costs in 2020, amounted to EUR 328 thousand (2019: EUR 269 thousand). Depreciation and amortisation costs amounted to EUR 970 thousand, an increase of 6.1% relative to 2019.

Impairments and provisions

The Bank generated net expenses from impairments and provisions in the amount of EUR 30,121 thousand in 2020. Net expenses from impairments amounted to EUR 27,839 thousand (2019: EUR 10,491 thousand). Of that amount, expenses for loan and other financial assets measured at amortised cost impairments totalled EUR 27,252 thousand, while expenses for the impairment of securities totalled EUR 587 thousand. Higher expenses for the impairment of loans were the result of the deteriorating economic conditions and macroeconomic forecasts. Provisioning expenses amounted to EUR 2,282 thousand (2019: EUR 1,251 thousand).

in EUR thousand	Actual		Index
	Jan-Dec 2020	Jan-Dec2019	2020/2019
Net interest	23,193	23,932	96.9
Net non-interest income	35,702	41,793	85.4
Operating costs	(18,312)	(16,745)	109.4
Impairments and provisions	(30,121)	(11,742)	256.5
Profit from ordinary operations	10,462	37,238	28.1
Corporate income tax	(1,972)	(5,198)	37.9
Net profit for financial year	8,490	32,040	26.5

Information support for operations

The Bank carried out the comprehensive re-engineering of business processes and implemented certain additional measures to simplify procedures (including in response to the COVID-19 pandemic), and thus completed the first strategic activity (the optimisation of business processes and the organisational structure of SID Bank) defined in SID Bank's development strategy for the period 2019–2023.

Activities to introduce a new, expanded information system at the Bank in the period until 2022 were halted due to the COVID-19 pandemic and the need for the Bank to take on an intervention role, but were restarted during the second half of 2020. What was previously a single project was broken down into five smaller projects with a phased implementation approach in order to ensure that advanced technological solutions are introduced sooner in key areas at the Bank than they would have been under one large project. The implementation of three key projects (support of the financing process, a new core system and an upgraded data warehouse/lake) was defined as a special priority task, and all the necessary HR, organisational and financial resources will be earmarked for the implementation of those projects over the next 18 months. Thus, at the end of 2020, the Bank began activities (the compilation of functional and technical specifications) to implement a new portal for customers and other stakeholders, as well as application/platform to support the financing process, which will significantly speed up the processing of loan applications. Project teams began to work actively in 2021 in connection with the core system and data warehouse, with all necessary external IT providers expected to be selected during the first half of this year. Because the Bank is bound to the Public Procurement Act, procedures are more protracted, while there is the risk of unsuccessful tenders due to errors of tenderers over which the Bank has no control. The risk of delays by the Bank (i.e. because employees are busy with other urgent tasks) was mitigated by hiring additional personnel for a specific period of time. Certain personnel changes were also made in that area, while more changes are planned in 2021.

In response to the COVID-19 pandemic, the Bank upgraded its document system, in the part relating to support for the credit process, with the inclusion of its customers in digital signing. It continued with the upgrading of the portal for customer loan applications for the Bank’s new/amended loan funds, also in response to the COVID-19 pandemic, in the scope of the EC’s Temporary Framework. The Bank upgraded the technical support for the interest rate calculator for those loan funds (and for its existing loan funds and other products). Technical support for the management of loans in accordance with the ZIUOPOK was upgraded. In cooperation with commercial banks (via the Bank Association of Slovenia), the Bank established technical support for the implementation of two guarantee schemes (under the ZIUZEOP and ZDLGPE legislation), including RPA (Robot Process Automation), as well as the associated business process, and carried out the necessary internal organisation set-up, including new human resources.

With regard to the funds of funds, the Bank continued to expand technical support for the reporting of financial intermediaries and support for direct financing (in accordance with the pace of development and the initial placement of products from this framework, for example portfolio guarantees).

During the year the Bank implemented all new regulatory requirements relating to reporting to the regulator and the reporting requirements imposed by the competent ministries.

The Bank adheres to increasingly higher information security requirements due to rising cyber threats in the external environment, and is aware of the importance of protecting customers' data, including personal data. On this basis, the Bank earmarked a great deal of resources and funds to the training and upgrading of security systems during the year, such as ATP (*Advanced Threat Protection*), and SIEM (*Security Information and Event Management*) and protection from DDOS (*Distributed Denial of Service*). The Bank continued to organise training in the area of information security for all employees, and verified the vulnerability of SID Bank's IT systems to threats from the external and internal environments through external security reviews (penetration tests, social engineering tests, etc.). The Bank began to rectify deficiencies identified in those tests immediately.

The Bank upgraded reporting via SISBON (information system for the exchange of data regarding the indebtedness of individuals) in August 2020 at the request of the Bank of Slovenia, and in September 2020 was successfully included in (daily) reporting to the Bank of Slovenia via SISBIZ (information system for the exchange of information regarding the indebtedness of legal entities).

Particularly during the second half of 2020, the supervisory board dedicated a great deal of time to the area of information support, and reiterated its support and expectations that the Bank undergo a comprehensive technological makeover in the shortest time possible, so that it will be able to respond appropriately to the challenges of the changing external environment. A call for applications for candidates for an additional third member of the management board was published. That person's primary responsibility would be information support and they would give additional impetus to the IT transformation of the Bank.

Operations of other SID Bank Group companies

Prvi Faktor Group

Orderly wind-down activities continued at the Prvi Faktor Group in 2020, where the focus was on liquidating the portfolio, cutting costs and setting limits on operations in accordance with the outlined plans.

Further optimisation was carried out in parallel, while possibilities were explored for the faster and more efficient completion of liquidation proceedings. On the basis of the finalisation of unresolved relations and the liquidated portfolio, and taking into account the planned costs for the period 2017 to 2021 and the account balances, Prvi faktor, Zagreb (in liquidation) repaid a total of EUR 0.5 million in loans to owners in 2020.

Total assets at the consolidated level amounted to EUR 7,175 thousand as at 31 December 2020, a decrease of 13% relative to the end of the previous year. In terms of total assets, the largest company in the Prvi Faktor Group is Prvi faktor, Zagreb (in liquidation), whose total assets amounted to EUR 3,662 thousand. It is followed by Prvi faktor, Beograd (in liquidation) with total assets of EUR 3,163 thousand, Prvi faktor, Ljubljana (in liquidation) with total assets of EUR 1,583 thousand and Prvi faktor, Sarajevo (in liquidation) with total assets of EUR 2 thousand.

The Prvi Faktor Group ended 2020 with a loss of EUR 485 thousand, primarily as a result of a decline in income and incurred costs. Prvi faktor, Beograd (in liquidation) generated a profit of EUR 135 thousand (primarily due to interest received on previously written-off claims, a repaid court deposit and interest received on a deposit), while other group companies generated losses as follows: Prvi faktor, Ljubljana (in liquidation) in the amount of EUR 241 thousand, Prvi faktor, Zagreb (in liquidation) in the amount of EUR 338 thousand and Prvi faktor, Sarajevo (in liquidation) in the amount of EUR 42 thousand. Contributing to those losses on the cost side, to various degrees by individual company, were labour costs, administrative costs (the costs of legal, IT, consultancy and accounting services) and other costs that were not covered in full by income from default interest, other recovered income and court costs from various debtors, and revenues from the reversal of impairments and interest paid by and recovered from debtors.

The Prvi Faktor Group's shareholder equity was positive in the amount of EUR 4,688 thousand. Except for Prvi faktor, Sarajevo (in liquidation), which recorded negative shareholder equity at the end of the year in the amount of EUR 60 thousand, the other group companies recorded positive equity.

Centre for International Cooperation and Development

The revenues generated by the CMSR in 2020 were lower than planned due to the consequences of the COVID-19 pandemic and failure to conclude an agreement on the financing of projects from the international development cooperation programme for 2020 and 2021. As a result, expenses incurred exceeded revenues generated by EUR 19 thousand.

The CMSR worked with SID Bank on the preparation of country risk assessments, surveys of companies, data processing, and the preparation of market gap analyses.

The CMSR made use of all funding available from state grants under agreements on the co-financing of international development cooperation projects. The CMSR informed the co-financers of projects about the cost-efficiency and quality of implemented projects and the results thereof. In accordance with its capacities, it also promoted the broader importance of providing bilateral development aid, which has proven to stimulate the internationalisation of Slovenian companies and contributes to the sustainable development of partner countries. The CMSR actively implemented and completed international development cooperation projects in 2020, and successfully implemented the first international development cooperation project in Sub-Saharan Africa (Kenya) on behalf of the Republic of Slovenia in accordance with Slovenia's international development cooperation and humanitarian aid strategy.

In the scope of its publishing activity, the CMSR also published a partially revised version of the journal International Business Law in 2020. The CMSR also issued the redesigned promotional business publication *Doing Business in Slovenia 2020* with revised content in 2020, while the online version is regularly updated on the Slovenian Business Portal (*www.poslovniportal.si*). Flash drives with the latest content were issued exclusively for the needs of the Ministry of Foreign Affairs.

In 2020 the CMSR continued its work with the public agency SPIRIT in the preparation of information about the legal regime in Slovenia. In the scope of its strategy for the period 2020–2024, the CMSR dedicated a great deal of attention in 2020 to the upgrading of rules in accordance with the guidelines of the Ministry of Foreign Affairs and the re-engineering of internal processes, and increased efficiency and transparency in international development cooperation projects, while ensuring compliance with the Slovenian law.

The CMSR drew up a proposal for the Ministry of Foreign Affairs in 2020 regarding improvements to the methodology for calculating public-sector wages for work abroad, taking into account the costs of living. That proposal included the methodology for calculating the costs of living in places where the UN does not publish indices. The Slovenian government decree that covered the proposed change went into effect on 1 October 2020.

Significant events in 2020

SID Bank adapted rapidly and effectively in 2020, and expanded its existing indirect and direct financing programmes, and developed and introduced new products to help companies handle the economic crisis that followed the outbreak of the COVID-19 pandemic. It also continued with its range of development financing programmes which, together with products and programmes under development, represent the basis for a green and digital economic recovery.

Completed in 2020 in the scope of the FI 2014–2020 Fund of Funds was the development and initial implementation of the ECP portfolio guarantee financial instrument for SMEs, while established in cooperation with the MEDT was the new COVID-19 Fund of Funds in the amount of EUR 65 million in European cohesion funds, which is intended for companies to mitigate the consequences of the COVID-19 pandemic on the economy, with the aim of improving liquidity and stimulating corporate investments in the period following the pandemic.

Via the Ministry of Finance, SID Bank also notified the European Commission in 2020 about a new state aid scheme according to the temporary state aid framework to support the economy, which was hit hard by the COVID-19 crisis. That scheme allows SID Bank to allocate state aid to companies of all sizes for the financing of investments and working capital according to higher state-aid limits and thus more favourable interest rates.

SID Bank will gradually pay EUR 23 million into the Three Seas Initiative Investment Fund with the aim of providing opportunities for the financing of key infrastructure projects in the so-called Three Seas region, which includes 12 EU Member States between the Baltic, Black and Adriatic Seas. This will close market gaps in the area of financing the European transport, energy and digital infrastructure, in part through the linking of regional cross-border projects. In the current adverse economic conditions, investments in the infrastructure will be particularly important for the continued sustainable development of the economies of Southeast Europe. The Slovenian government sees participation in the Three Seas Initiative as a development opportunity, and therefore encourages the participation of Slovenian companies and investors in the investment element of the Three Seas Initiative and thus payments by SID Bank into the investment fund.

With the aim of mitigating the consequences of the COVID-19 pandemic, the Republic of Slovenia adopted two acts (the ZIUOPOK/ZIUZEOP and ZDLGPE) authorising SID Bank to perform specific activities under both guarantee schemes in the name and on behalf of the government.

SID Bank was thus amongst the first in the EU in 2020 to introduce a special top-up scheme for the reinsurance of short-term trade claims against customers from EU and OECD Member States, and drafted a scheme for the reinsurance of domestic claims.

The Standard & Poor's Rating Services agency confirmed Slovenia's sovereign rating and SID Bank's rating at AA–/A-1+ in June 2020. The future rating outlook of the Republic of Slovenia and SID Bank remains stable.

In July 2020 SID Bank issued a five-year bond in the nominal amount of EUR 350 million on the international capital market in a public issue. The bond was issued under favourable price terms, which is an indication of domestic and international investors’ confidence in SID Bank, and the associated Slovenian government guarantee. In November 2020 SID Bank published the first report on the environmental effects of its green bond, which was issued in December 2018. The subject of the first annual report were projects that SID Bank financed in 2019, and projects that were financed by SID Bank in the three years prior to the issue of the green bond and that the Bank refinanced with funds from the issued bond. The environmental effects of those projects were also the subject of that report. The majority or 67.4% of all approved funds were earmarked for green projects from the category of clean transport, followed by 21.4% of funds from the category of renewable energy sources, 8.8% of funds for the sustainable management of resources and waste, and 2.3% of funds for energy efficiency. Through the investment of one million euros in funds from green bonds in green projects, SID Bank contributed to the reduction of greenhouse gas emissions by 615 tonnes of CO_2, in addition to other positive environmental effects.

In December SID Bank signed an agreement with the MEDT regarding the chairmanship of the Council of the European Union’s Exports Credit Group during Slovenia’s presidency of the EU Council in 2021. Key priorities include the adaptation of the public export system to current global trends, adaptation for climate change and the adaptation of public instruments to the structure of the Slovenian export economy.

Significant events after the end of the financial year

On the day the financial statements were approved, there was still uncertainty regarding the development of the COVID-19 pandemic, including the duration thereof, the extent of consequences on operations and the pace of economic recovery. For this reason, the extent of the effects of the pandemic on SID Bank’s operations cannot be assessed with a high degree of certainty.

The Bank did not identify any significant business events following the end of the financial year in connection with the COVID-19 pandemic, or any other significant business events that could affect the financial statements or require additional disclosures thereto.

On 12 March 2021 the general meeting of owners of depository receipts of Fortenova Group TopCo B.V. approved the transfer of Sberbank of Russia's 18.53% stake in Poslovni sistem Mercator, d.d. to Fortenova Group TopCo B.V. The general meeting also gave its consent to Fortenova Group TopCo B.V. for the expansion of the existing financial arrangement with HPS Investment Partners LLC and VTB Bank to refinance Poslovni sistem Mercator, d.d.'s debt to banks. On the basis of the available information, the refinancing of the entire debt is expected to be carried out. Loans to Poslovni sistem Mercator, d.d. disclosed in SID Bank’s financial statements represent non-performing non-trading financial assets mandatorily at fair value through profit or loss. If the debt repayment is completed, this will have a positive impact on SID Bank's income statement in 2021.

The draft National Demographic Fund Act is currently before the National Assembly for adoption. In the scope of the second reading, that act envisages a change in SID Bank’s sole shareholder. The National Demographic Fund is expected to replace the Republic of Slovenia as SID Bank’s sole shareholder. That change will affect the future possibilities and conditions of borrowing by SID Bank, and thus the Bank’s lending terms and other transactions.

FINANCIAL REPORT

Management board’s declaration on the financial statements of SID Bank

The management board approved SID Bank's financial statements, and the annual report for the year ending 31 December 2020. The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU.

The management board believes that SID Bank has sufficient resources to operate as a going concern.

The senior 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; and
- to ensure that the financial statements are compiled on a going-concern basis for SID Bank.

The management board is responsible for maintaining accounting documents and records to disclose the financial position of SID Bank 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 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.

Ljubljana, 18 March 2021

Management board of SID Bank

Goran Katušin
Member

Sibil Svilan, M. Sc.
President

Independent auditor's report on the financial statements of SID Bank

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of SID Banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of the company SID Banka d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2020, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2020 the Company presented loans to non-bank customers in the net amount of EUR 1,143.5 million and total expected credit loss in the amount of EUR 69.7 million.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination and measurement of loss allowance for expected credit losses represents one of the key considerations for the Management.
In determining both the timing and the amount of loss allowance for expected credit losses on loans to non-bank customers, the Management exercises significant judgement in relation to the following areas:
Use of historic data in the process of determining risk parameters
Estimation of the credit risk related to the exposure
Assessment of stage allocation
Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses
Assessment of the forward-looking information, including the impact of the COVID-19 pandemic
Expected future cash flows from operations
Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures.</td><td>In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.
We performed the following audit procedures with respect to area of loans:
Reviewing the Company's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9
Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses, including utilised applications and information technology tools
Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses
Testing identified relevant controls for operating effectiveness
Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc.
Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on:</td></tr>
</table>

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Since determination of appropriate impairment allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and significant judgement from the Management, process of measuring expected credit losses may be exposed to management bias. This fact led to the determination of impairment allowances for expected credit losses on loans and receivables from customers, recognized in accordance with IFRS as a key audit matter in our audit of the financial statements for the year ended 31 December 2020. Management has provided further information about the impairment allowance on loans from customers in notes *2.3.8 Financial instruments: Classification and measurement of financial instruments in accordance with IFRS 9; Impairments of financial assets and provisions; 2.4.4 Financial assets measured at amortised cost; 2.5.13 Impairments; 3.1 Credit risk: Management and monitoring of credit risk; Maximum exposure to credit risk*	i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk, including the impact of COVID-19 iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information, including the impact of COVID-19. vii. re-performing calculation of expected credit losses on a selected sample. viii. analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance ix. assessment of appropriateness of staging transition and allocation of exposures with granted moratoria • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance in the current economic environment affected by the COVID-19 iii. Reviewing and assessing expected future cash flows from collateral and estimated realization period iv. Analysis of exposures with granted moratoria and the eligibility thereof, considering regulatory conveyance v. Assessment of appropriateness of staging transition and allocation of exposures with granted moratoria.

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Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the audited financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and the Group and their environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements of the Company, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide those charged with governance with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

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Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 3 July 2019. Our total uninterrupted engagement has lasted 6 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 25 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Yuri Sidorovich, certified auditor.

DELOITTE REVIZIJA d.o.o.

Yuri Sidorovich
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, March 25, 2021

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

1 Financial statements of SID Bank

1.1 Statement of financial position

(EUR thousand)	Note	31 Dec 2020	31 Dec 2019
Cash, cash balances at central banks and other demand deposits at banks	2.4.1	120,187	72,729
Non-trading financial assets mandatorily at fair value through profit or loss	2.4.2	35,197	17,685
Financial assets measured at fair value through other comprehensive income	2.4.3	883,106	664,566
Financial assets measured at amortised cost	2.4.4	1,858,750	1,644,654
Loans and advances to banks		783,725	835,770
Loans and advances to customers		1,073,795	803,623
Other financial assets		1,230	5,261
Hedging derivatives	2.4.5	1,153	0
Investments in subsidiaries, associates and joint ventures	2.4.6	0	0
Tangible assets	2.4.7	4,336	4,618
Property, plant and equipment		4,336	4,618
Intangible assets	2.4.7	992	980
Tax assets	2.4.8	2,423	468
Current tax assets		2,423	18
Deferred tax assets		0	450
Other assets	2.4.9	1,214	464
TOTAL ASSETS		**2,907,358**	**2,406,164**
Financial liabilities measured at amortised cost	2.4.10	2,424,553	1,938,463
Deposits from banks and central banks		1,259	8,944
Loans from banks and central banks		908,711	768,968
Loans from customers		832,377	827,545
Debt securities		679,327	330,279
Other financial liabilities		2,879	2,727
Hedging derivatives	2.4.5	1,087	841
Provisions	2.4.11	4,635	2,374
Tax liabilities	2.4.8	702	451
Current tax liabilities		453	451
Deferred tax liabilities		249	0
Other liabilities	2.4.12	274	175
TOTAL LIABILITIES		2,431,251	1,942,304
Share capital		300,000	300,000
Share premium		1,139	1,139
Accumulated other comprehensive income		15,413	11,656
Profit reserves		156,846	135,327
Treasury shares		(1,324)	(1,324)
Retained earnings (including net profit for financial year)		4,033	17,062
TOTAL EQUITY	2.4.13	476,107	463,860
TOTAL EQUITY AND LIABILITIES		**2,907,358**	**2,406,164**

The notes are an integral part of the financial statements.

1.2 Income statement

(EUR thousand)	Note	2020	2019
Interest income		28,560	30,913
Interest expenses		(5,367)	(6,981)
Net interest income	2.5.1	**23,193**	**23,932**
Dividend income	2.5.2	316	5,453
Fee and commission income		742	733
Fee and commission expenses		(449)	(533)
Net fee and commission income	2.5.3	**293**	**200**
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	2.5.4	22,962	12,775
Net gains/(losses) on financial assets and liabilities held for trading		0	(969)
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	2.5.5	8,710	12,704
Changes in fair value in hedge accounting	2.5.6	126	(1,125)
Net foreign exchange gains/(losses)	2.5.7	17	(9)
Net gains/(losses) on derecognition of non-financial assets		0	9
Other net operating income/(expenses)	2.5.8	3,851	2,757
Administrative expenses	2.5.9	(17,342)	(15,831)
Depreciation and amortisation	2.5.10	(970)	(914)
Net modification gains/(losses)	2.5.11	(573)	(65)
Provisions	2.5.12	(2,282)	(1,251)
Impairments	2.5.13	(27,839)	(10,491)
Profit/loss from non-current assets and disposal groups classified as held for sale, not qualifying as discontinued operations		0	10,063
Profit before tax from continuing operations		**10,462**	**37,238**
Corporate income tax on continuing operations	2.5.14	(1,972)	(5,198)
Profit after tax from continuing operations		**8,490**	**32,040**
Net profit for the financial year		**8,490**	**32,040**
Attributable to owners of bank		8,490	32,040
Basic earnings per share/diluted earnings per share (in EUR per share)	2.5.15	2.74	10.32

The notes are an integral part of the financial statements.

1.3 Statement of comprehensive income

(EUR thousand)	Note	2020	2019
Profit for the financial year after tax		**8,490**	**32,040**
Other comprehensive income after tax		**3,757**	**9,768**
Items that will not be reclassified to profit or loss		(6)	1,577
Fair value changes of equity instruments measured at fair value through other comprehensive income	2.4.3	(7)	1,719
Income tax relating to items that will not be reclassified to profit or loss	2.4.8	1	(142)
Items that may be reclassified subsequently to profit and loss		3,763	8,191
Cash flow hedges (effective portion)		0	2,151
Valuation gains/(losses) taken to equity		0	(4,728)
Transferred to profit or loss		0	1,116
Transferred to initial carrying amount of hedged items		0	5,763
Debt instruments measured at fair value through other comprehensive income		4,646	7,959
Valuation gains/(losses) taken to equity	2.4.3	6,705	10,561
Transferred to profit or loss		(2,059)	(2,602)
Income tax relating to items that may be reclassified subsequently to profit and loss	2.4.8	(883)	(1,919)
Total comprehensive income for the financial year after tax		**12,247**	**41,808**
Attributable to owners of bank		12,247	41,808

The notes are an integral part of the financial statements.

1.4 Statement of changes in equity

(EUR thousand)

2020	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2020	300,000	1,139	11,656	135,327	17,062	(1,324)	463,860
Net profit for the financial year	0	0	0	0	8,490	0	8,490
Other comprehensive income	0	0	3,757	0	0	0	3,757
Total comprehensive income for financial year after tax	0	0	3,757	0	8,490	0	12,247
Allocation of net profit to profit reserves	0	0	0	21,519	(21,519)	0	0
CLOSING BALANCE as at 31 Dec 2020	**300,000**	**1,139**	**15,413**	**156,846**	**4,033**	**(1,324)**	**476,107**

The notes are an integral part of the financial statements.

(EUR thousand)

2019	Share capital	Share premium	Accumulated other comprehensive income	Profit reserves	Retained earnings (including net profit for the financial year)	Treasury shares	Total equity
OPENING BALANCE as at 1 Jan 2019	300,000	1,139	3,731	102,149	16,356	(1,324)	422,051
Net profit for the financial year	0	0	0	0	32,040	0	32,040
Other comprehensive income	0	0	9,768	0	0	0	9,768
Total comprehensive income for financial year after tax	0	0	9,768	0	32,040	0	41,808
Allocation of net profit to profit reserves	0	0	0	33,177	(33,177)	0	0
Other transfers among components of equity	0	0	(1,843)	0	1,843	0	0
Adjustment due to rounding	0	0	0	1	0	0	1
CLOSING BALANCE as at 31 Dec 2019	**300,000**	**1,139**	**11,656**	**135,327**	**17,062**	**(1,324)**	**463,860**

The notes are an integral part of the financial statements.

1.5 Statement of cash flows

(EUR thousand)	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		10,462	37,238
Depreciation and amortisation		970	914
Impairments/(reversal of impairments) of investments in debt securities measured at fair value through other comprehensive income		588	54
Impairments/(reversal of impairments) of loans and other financial assets measured at amortised cost	2.5.3	27,251	10,437
Net (gains)/losses from exchange differences		(17)	9
Net modification (gains)/losses		573	65
Net (gains)/losses from the sale of tangible assets		0	(9)
Other (gains)/losses from investing activities	2.5.2	(316)	(5,453)
Other adjustments to total profit or loss before tax	2.3.6, 2.5.4 - 2.5.6, 2.5.12	(27,453)	(19,401)
Cash flows from operating activities before changes in operating assets and liabilities		**12,058**	**23,854**
(Increases)/decreases in operating assets (excluding cash and cash equivalents)		**(467,518)**	**(121,868)**
Net (increase)/decrease in non-trading financial assets mandatorily at fair value through profit or loss		(8,802)	10,686
Net (increase)/decrease in financial assets measured at fair value through other comprehensive income	2.4.3	(215,289)	8,240
Net (increase)/decrease in loans and other financial assets measured at amortised cost		(242,692)	(149,110)
Net (increase)/decrease in assets-derivatives – hedge accounting		15	0
Net (increase)/decrease in non-current assets held for sale		0	8,413
Net (increase)/decrease in other assets		(750)	(97)
Increases/(decreases) in operating liabilities		**507,829**	**56,356**
Net increase/(decrease) in financial liabilities held for trading		0	(7,972)
Net increase/(decrease) in deposits and loans measured at amortised cost	2.4.10	158,700	(133,093)
Net increase/(decrease) in issued debt securities measured at amortised cost	2.4.10	349,048	197,678
Net increase/(decrease) in liability-derivatives – hedge accounting		3	(285)
Net increase/(decrease) in other liabilities		78	28
Cash flows from operating activities		**52,369**	**(41,658)**
(Paid)/refunded corporate income tax		**(4,558)**	**(8,299)**
Net cash flow from operating activities		**47,811**	**(49,957)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		**316**	**5,462**
Receipts from the sale of tangible assets		0	9
Other receipts from investing activities	2.5.2	316	5,453
Cash payments on investing activities		**(700)**	**(591)**
(Cash payments to acquire tangible assets)		(346)	(282)
(Cash payments to acquire intangible assets)		(354)	(309)
Net cash flow from investing activities		**(384)**	**4,871**
Effects of change in exchange rates on cash and cash equivalents		31	6
Net increase/(decrease) in cash and cash equivalents		**47,427**	**(45,086)**
Opening balance of cash and cash equivalents		**82,729**	**127,809**
Closing balance of cash and cash equivalents		**130,187**	**82,729**

The notes are an integral part of the financial statements.

Cash equivalents

(EUR thousand)	31 Dec 2020	31 Dec 2019
Deposits at banks	10,000	10,000
Cash, cash balance in settlement account at central bank	119,303	72,673
Demand deposits at banks	884	56
Total	**130,187**	**82,729**

Cash flows from interest and dividends

(EUR thousand)	2020	2019
Cash flows from interest and dividends		
Interest received	37,928	38,570
Interest paid	(6,010)	(8,621)
Dividends received	316	5,453
Total	**32,234**	**35,402**

2 Notes to the financial statements

Sections 1.1 to 1.5 of the financial report present the statement of financial position as at 31 December 2020, the income statement for the 2020 financial year, the statement of comprehensive income for the 2020 financial year, the statement of changes in equity for the 2020 financial year and the statement of cash flows for the 2020 financial year for SID Bank. Figures for the position as at 31 December 2019 and for the 2019 financial year are disclosed in the aforementioned financial statements for the purposes of comparison.

2.1 Basic information

SID Bank provides banking services under authorisations obtained from the Bank of Slovenia, and undertakes transactions under the authorisation of the Slovenian state (the Republic of Slovenia) and insurance of receivables. The granting of loans to promote development, environmental protection and energy projects accounts for the majority of its banking activities. A more detailed description of the services under authorisation is given in section 2.3.30.

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 have been compiled in accordance with the International Financial Reporting Standards and the corresponding interpretations as approved by the EU, and taking account of the Companies Act, the Banking Act and the Bank of Slovenia's regulations.

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 other accounting policies that are of significance in the interpretation of the financial statements are given below.

In light of their immateriality, the accounting policies relating to insurance contracts are not disclosed in detail.

In compiling the financial statements for 2020 the Bank applied the same accounting policies as those used in compiling the financial statements for 2019, with the exception of the accounting standards and other changes effective as of 1 January 2020 and approved by the EU.

2.3.1 Basis for compiling the financial statements

The financial statements of SID Bank have been compiled on a going-concern basis, on an original cost basis, with the exception of financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets held for trading, and hedging derivatives, 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 and material uncertainties

The compilation of the financial statements in accordance with the IFRS at SID Bank 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.

Due to the deterioration in the macroeconomic environment caused by the COVID-19 pandemic, the Bank re-assessed significant accounting policies and estimates in areas that could be adversely affected by the pandemic.

The most significant assessments in using accounting policies relate to the classification of financial assets to the relevant business model and assessments of whether contractual cash flows are comprised solely of payments of principal and interest. Financial assets are assigned to a category prior to initial recognition of a financial instrument with regard to the policy of SID Bank.

The Bank used the estimates for:

- impairments of financial assets measured at amortised cost, provisions for contingent liabilities and impairments of financial assets measured at fair value through other comprehensive income (see note in section 2.3.8 under the title Impairments of financial assets and provisions);
- estimates of the fair value of financial assets and liabilities (see note in section 2.3.8 under the title Principles applied in valuation at fair value);
- valuation of derivatives (see notes in section 2.3.9 Derivatives and hedge accounting);
- depreciation and amortisation period of property, plant and equipment and intangible assets (see notes in section 2.3.11 Property, plant and equipment and intangible assets);
- potential tax items (see notes in section 2.3.27 Taxes); and
- provisions for commitments to employees (see notes in section 2.3.15 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. The COVID-19 pandemic additionally increased uncertainty in the use of estimates and assumptions applied in the compilation of financial statements. SID Bank regularly assesses and adjusts the estimates and assumptions used, and recognises their effects during the period of the revision.

2.3.3 Consolidation

In addition to SID Bank, the SID Bank Group includes the Centre for International Cooperation and Development (CMSR) and the Prvi Faktor Group (joint venture). SID Bank is a co-founder of the CMSR, in which it does not have any financial stake, but holds 33% of the voting rights.

An associate is a company in which SID Bank directly or indirectly holds 20% or more of the voting rights, and exercises significant influence on it but does not control it.

A joint venture is a company jointly controlled by SID Bank on the basis of a contractual agreement.

The investments in the joint venture and associate are accounted for in the consolidated financial statements according to the equity method.

Based on the principle of immateriality, which defines information whose omission or non-disclosure does not affect the decisions of the users of the financial statements as immaterial, SID Bank does not include either of the companies referred to in the previous paragraph in consolidation, as the combined total assets of the two companies amount to less than 1% of SID Bank's total assets.

SID Bank only compiled separate financial statements for 2020.

2.3.4 Functional and reporting currency

The financial statements of SID Bank have been compiled in euros, which is the reporting and functional currency of SID Bank.

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

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 Bank's financial statements using the reference European Central Bank exchange rate applicable on the reporting date. Translation effects are disclosed in profit or loss 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 under the item of net foreign exchange gains/losses.

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

Foreign exchange differences arising on non-monetary items such as equities classified as financial assets measured at fair value through other comprehensive income are recognised in accumulated other comprehensive income together with the effect of valuation at fair value.

2.3.6 Statement of cash flows

The statement of cash flows is compiled using the indirect method.

Profit before tax served as the basis for the preparation of the cash flow of SID Bank.

Under the indirect method, cash flows from operating activities are determined by adjusting pre-tax profit for the effects of changes in operating receivables and liabilities, the effects of non-cash items (e.g. depreciation and amortisation, impairments, and foreign exchange differences) and other adjustments to net profit (e.g. provisions, fair value changes in hedge accounting, changes in the fair value of derivatives held for trading, changes in the fair value of non-trading financial assets mandatorily at fair value through profit or loss, and gains/losses from the provision of loan fund transactions incurred on the basis of a first loss contract clause).

SID Bank includes the effects of changes in issued debt securities in net cash flows from operating activities.

A direct method is used to disclose cash flows from investing activities in accordance with the Regulation on the books of account and annual reports of banks and savings banks, despite the Bank compiling the statement of cash flows under the indirect method. Cash flows from investing activities include dividends received under receipts from investing activities and receipts from the sale of property, plant and equipment, while cash payments on investing activities include acquisitions of property, plant and equipment, and acquisitions of intangible assets.

2.3.7 Cash equivalents

Cash equivalents in the statement of cash flows include cash-on-hand and balances in settlement accounts and business accounts at banks, deposits at and loans to banks, and securities measured at fair value through other comprehensive income with an original maturity of no more than three months.

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

2.3.8 Financial instruments

Classification and measurement of financial instruments in accordance with IFRS 9

Business model

The classification and measurement of financial assets in the financial statements are determined by the selected business model within which financial assets are managed, and the characteristics of their contractual cash flows. Upon their initial recognition, each financial asset is classified into one of the following business models:

1. a model whose purpose is the collection of contractual cash flows (hold to collect model: measurement at amortised cost);

2. a model whose purpose is the collection of contractual cash flows and sale (hold to collect and sell model: measurement at fair value through other comprehensive income); and

3. other models (measurement at fair value through profit or loss and through other comprehensive income).

SID Bank assesses the business model on the basis how it manages a portfolio of financial assets in order to achieve business goals. Given its role and framework of operation, SID Bank manages financial assets under the first two basic business models, and only classifies financial assets under the third business model when they fail to meet the conditions of one of the first two business models.

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.

SID Bank’s basic business activity involves lending operations executed either via commercial banks or in cooperation with them, or via direct lending to final beneficiaries. The aim of lending activities is to collect contractual cash flows, and accordingly these transactions are classified under the first business model.

The purpose of treasury transactions is to manage liquidity risk, interest rate risk and currency risk, and to provide funding for the purposes of financing. The purpose of deposit and credit operations is to collect contractual cash flows, and they are therefore classified under the first business model. Transactions in debt securities may be concluded to collect contractual cash flows or also with the eventual aim of sale and, on this basis, they can be classified under the first or second business models.

According to the requirements of the standard, all equity instruments may only be classified under the third business model. Because these financial instruments are not traded by the Bank, it decides, upon initial recognition of an individual equity or a group of equities, whether it will use the alternative option of measurement through other comprehensive income. Financial assets that fail the SPPI test are also classified under this business model.

Assessment of whether contractual cash flows comprise solely payments of principal and interest (SPPI test)

SID Bank carries out an SPPI test for debt instruments assigned to the hold to collect model and the hold to collect and sell model. For the purpose of this assessment, the principal is defined as the fair value of financial assets upon initial recognition. Interest is defined as a compensation for the time value of money, the credit risk associated with the unpaid principal and other lending risks and costs (liquidity risk and administrative expenses) and the profit margin.

The Bank assesses whether contractual cash flows are comprised solely of payments of principal and interest on the basis of the contractual characteristics of the financial instrument. This assessment also involves a judgment of whether the financial asset contains contractual provisions that may change the time and amount of the contractual cash flows so that this condition would no longer be met. In so doing, the Bank takes account of:

- potential events that could change the time and amount of contractual cash flows;
- the possibility of early repayment or extended loan repayment;
- conditions that restrict the Group's cash flows of some assets (e.g. subordination of payments); and
- characteristics that change the understanding of the time value of money (e.g. periodic repricing of interest rates).

If a debt instrument fails the SPPI test, it must be measured at fair value, i.e. under the third business model.

Categories of financial assets

Based on the business model and the SPPI test carried out for the first and second business models, financial assets are assigned to the following categories:

Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they are assets under the hold to collect business model whose objective is to collect contractual cash flows. The contractual provisions stipulate the payment of certain time-dependent cash flows that constitute solely the payment of the principal and interest on the unpaid principal.

The Bank includes in this category loans and other financial assets such as trade receivables and debt securities that it has determined that it does not intend to sell. The effects of interest, foreign exchange differences and impairments are recognised in profit or loss.

Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if they are financial assets under the hold to collect and sell business model, the aim of which is to collect contractual cash flows and sell. The contractual provisions stipulate the payment of certain time-dependent cash flows that constitute solely the payment of the principal and interest on the unpaid principal.

The Bank includes debt securities in this category.

These assets are recognised at fair value in the statement of financial position. The effects of interest, foreign exchange differences and impairments are recognised in profit or loss. The effects are the same as in the case of measurement at amortised cost. The difference between the amortised cost and the fair value, taking account of the creation of impairments for expected credit losses, is recorded under other comprehensive income.

Upon derecognition the accumulated effect of the measurement is transferred from other comprehensive income to profit or loss.

In individual cases, the Bank also valuates equities at fair value through other comprehensive income, when the relevant standards allow this measurement option. In the case of measurement at fair value through other comprehensive income, only dividend income is recognised in profit or loss. Effects accumulated under other comprehensive income are never transferred to profit or loss, even upon derecognition.

Financial assets at fair value through profit or loss

If financial assets are not measured at amortised cost or fair value through other comprehensive income, they are measured at fair value through profit or loss.

This category primarily includes financial assets mandatorily at fair value through profit or loss and financial assets designated at fair value through profit or loss.

Financial assets mandatorily at fair value through profit or loss include any debt instruments that are otherwise managed under the first and second business models, but owing to the characteristics of the contractual cash flows did not pass the SPPI test, and derivatives otherwise used for hedging other on-balance-sheet items but that do not meet all of the conditions to be classified as hedging derivatives. This category also includes equity instruments for which the standards do not allow measurement at fair value through other comprehensive income.

The Bank would classify debt instruments that passed the SPPI test but that were defined as hedging instruments upon initial recognition under financial assets designated at fair value through profit or loss, if such classification would materially reduce or eliminate accounting discrepancies that occur due to the use of different valuation methods. The Bank does not currently hold such assets.

Accounting treatment of the recognition of modified financial assets

Financial assets are derecognised when the contractual rights to the cash flows expire, or the asset is transferred and the transfer qualifies for derecognition.

If the contractual cash flows of a financial asset are modified, SID Bank assesses whether the conditions had been modified to an extent that it changed the financial asset significantly, i.e. becomes a new financial asset. In so doing, the Bank takes into account the following criteria:

- the reason for modification of cash flows (commercial reasons or a customer's financial problems);
- whether the change results in the reclassification of an on-balance-sheet exposure and a transition to measurement at fair value;
- whether this involves a new contract based on which the original debtor's debt is repaid, or an annex to the contract by way of which a new debtor replaces the original debtor in the credit relationship – the new debtor is not related party to original debtor;
- whether this is a consolidation of several financial assets into a single or modified structure of new financial assets with a new cash flow scheme;
- whether this is a change in currency;
- whether this is a partial conversion of debt to equity.

If the modification causes a derecognition of the financial asset, all costs and fees are disclosed in profit or loss upon derecognition of the original financial asset, and the new financial asset is recognised at fair value, i.e. less expected credit losses as appropriate. If the modification does not cause a material change in cash flows, it also does not result in derecognition.

Write-off of investment operations

The Bank writes off receivables from investment operations when recovery has failed (generally after the exhaustion of all legal remedies and after the end of the statute-barring periods), or in the event that the customer no longer possesses any assets with which the debt from the investment operation could be repaid. In so doing the Bank takes account of Article 32 of the Bank of Slovenia's regulation on credit risk management at banks and savings banks, which regulates the write-off of problem exposures for reason of failed recovery.

The previous paragraph notwithstanding, the write-off of an exposure in full nevertheless occurs on the basis of a final court order on the completion of bankruptcy proceedings administered against the customer.

Should it be assessed in the recovery procedure that an on-balance-sheet exposure will not be repaid, and that the conditions for derecognising the exposure from the statement of financial position have been met in accordance with the IFRS, the procedure for derecognising the outstanding exposure from the statement of financial position and transferring it to the off-balance-sheet records in full is begun even before a final court order on the completion of bankruptcy proceedings is obtained, in the following cases:

- for unsecured exposures, when bankruptcy proceedings are initiated against the customer and the order initiating bankruptcy proceedings is final; and
- for secured exposures, when a period of more than the following has passed since the order initiating bankruptcy proceedings became final:
  - seven years for exposures secured by real estate, and
  - five years for exposures secured by movable property or other forms of credit protection (e.g. guarantees, securities and monetary claims), and the aforementioned assets have not been liquidated in the interim. If the exposure is secured by collateral of various types, the longer of the periods regarding the other assets is taken into account.

The write-off of an exposure may also occur:

- if an extra-judicial forbearance agreement or extra-judicial or court settlement is concluded between SID Bank and the customer;
- on the basis of the sale of SID Bank's receivables, in the amount representing the difference between SID Bank's exposure as at the reporting date and the selling price achieved; and
- on the basis of a final court order approving compulsory composition or simplified compulsory composition or a financial restructuring agreement, in the amount in which SID Bank's right to exercise payment from the customer in judicial or other proceedings was extinguished.

Financial liabilities

Financial liabilities are measured either at amortised cost or at fair value through profit or loss.

At initial recognition financial liabilities are classified with regard to the purpose of acquisition, the time held in possession and the type of financial instrument.

Financial liabilities measured at fair value through profit or loss comprise: financial liabilities held for trading, under which derivatives not used to hedge against risk are classified, and hedging derivatives, which include derivatives that meet the conditions for hedge accounting.

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

All other liabilities are classified into the category of liabilities at amortised cost, which comprises liabilities from deposits and loans from banks and central banks and customers, issued debt securities and other financial liabilities.

Principles applied in valuation at fair value

Fair value is the price that would be received when selling an asset or paid when transferring a liability in a transaction between unrelated market participants at the measurement date under current market terms, regardless of whether the price can be directly observed or estimated using a valuation technique. The price on the most advantageous market is not adjusted for transaction costs.

The fair value of a financial instrument at initial recognition is the same as the transaction price. If one of the following conditions is met, the fair value is not equal to the transaction price:

- the transaction takes place under duress, or the seller is forced to accept the price in the transaction (that might me the case if the seller is experiencing financial difficulties);
- the transaction is executed between related parties;
- the transaction is executed in a market that is not the most advantageous; or
- the transaction price includes transaction costs.

The valuation methods and the assumptions applied are additionally disclosed in section 3.7. The aforementioned note also describes and discloses the fair value hierarchy.

Impairments of financial assets and provisions

IFRS 9 is based on the expected credit loss model, where in addition to historical data on recoverability it is necessary to take account of forward-looking information and other internal and external factors that indicate the debtor's solvency in the future.

Estimated expected credit losses must be estimated for the following financial instruments:

- financial assets measured at amortised cost;
- debt securities classified as financial assets measured at fair value through other comprehensive income;
- lease receivables; and
- off-balance-sheet exposures from loan commitments given and financial guarantee contracts.

In essence IFRS 9 distinguishes between the recognition of expected credit losses during a 12-month period, and lifetime expected credit losses. SID Bank classifies financial assets for which expected credit losses must be estimated in accordance with IFRS 9 into the following stages:

- financial instruments where there has not yet been a significant increase in credit risk, and for which impairments and/or provisions for credit losses are measured on the basis of expected credit losses over a 12-month period are classified as Stage 1. Interest income from these financial instruments is calculated on the basis of the gross carrying amount;
- financial instruments where there has been a significant increase in credit risk in the period between initial recognition and the date for which the Bank estimates expected credit losses are classified as Stage 2. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial instrument. Interest income from these financial instruments is calculated on the basis of the gross carrying amount;

- financial instruments where there has been a default event on the part of the debtor are classified as Stage 3. Allowances and provisions for credit losses are measured on the basis of expected credit losses over the entire lifetime of the financial instrument. When calculating the interests for these financial instruments, SID Bank entirely excludes interest income and treats it as allowances for credit losses, not recognising that income in the income statement until payment. Upon payment only interest that relates to the unimpaired portion of principal is recognised in the income statement under interest income. Interest relating to the impaired portion of principal is recognised under revenues from the reversal of impairments in the event of payment.

The Bank classifies financial instruments as Stage 1 upon initial recognition, except purchased or originated credit-impaired financial assets (POCI item). Upon subsequent measurement, the Bank assesses whether there has been a significant increase in the credit risk of a financial instrument in the period between initial recognition and the date for which the Bank estimates expected credit losses. If this is not the case, the financial instrument remains classified as Stage 1. If there has been a significant increase in credit risk but the financial instrument has not yet been defined as a non-performing exposure, the Bank classifies it as Stage 2.

The Bank does not take account of credit protection when classifying exposures to Stages 1, 2 or 3.

In the case of a purchased or originated credit-impaired financial asset (POCI item), SID Bank calculates lifetime expected credit losses until derecognition.

The requirements of IFRS 9 with regard to the assessment of expected credit losses are complex and require critical assessments by the management, and estimates and assumptions particularly in the following areas described in detail below:
- assessment of a significant increase in credit risk since initial recognition; and
- inclusion of forward-looking information in the assessment of expected credit losses.

Measurement of expected credit loss

The Bank must measure expected credit losses of a financial instrument in a manner that takes account of:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Definition of default

In determining the default of a debtor, SID Bank applies the definition of a default of a debtor set out in Article 178 of the CRR, namely:
- the debtor is more than 90 days past due on any material credit obligation to SID Bank; and
- it is unlikely that the debtor will settle its credit obligations to SID Bank in full, without recourse by the Bank to actions such as liquidation of collateral or other procedures.

Significant increase in credit risk

SID Bank assesses on each reporting date whether the credit risk inherent in a financial instrument has increased significantly since initial recognition. It assesses significant increases in credit risk using reasonable and supportable information at the level of the individual financial instrument, taking into account the following criteria:
- a change in credit rating with respect to the initial recognition;
- a change in weighted lifetime probability of default with respect to the initial recognition;
- the number of days past due at the level of the financial instrument is more than 30;
- the financial instrument becomes a performing forborne exposure; and
- the fair value is lower (by a specified percentage) than the amortised cost of a marketable debt security throughout a specified period.

SID Bank does not take account of the exemptions referred to in Article 5.5.10 of IFRS 9 with regard to the consideration of exposures with low credit risk.

Inputs used to calculate expected credit losses

SID Bank calculates expected credit losses on the basis of the following methodologies:
- methodology for Stages 1 and 2;
- methodology for Stage 3 (estimate of cash flows); and
- methodology for Stage 3 (estimate of collateral).

The inputs used to calculate expected credit losses on the basis of the methodology for Stages 1 and 2 are as follows:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD); and
- discount factor.

SID Bank defines the probability-of-default curve (PD curve) and loss-given-default curve (LGD curve) for individual homogeneous groups defined internally on the basis of internally developed methodologies.

Probability of default for two main homogeneous PD groups: SID Bank determines exposures to large enterprises in Slovenia and exposures to SMEs in Slovenia on the basis of modelled transition matrices. The input data in the model consists of microdata from the AJPES database for the period of 2006 to 2017. For the purposes of determining the probability of default for other main homogeneous PD groups, SID Bank uses the data of the rating agency Fitch Ratings, which is microdata to which SID Bank applies regression methods in survival analysis for modelling.

In the determination of loss given default, SID Bank applies the adjusted parameters contained in the Guidelines for calculating default rate and loss rate issued by the Bank of Slovenia, where forward-looking information is also taken into account.

SID Bank determines exposure at default with respect to the exposure of a financial instrument on the date of calculation of expected credit losses and the future contractual cash flows from the financial instrument. When calculating exposure at default for off-balance-sheet exposures, SID Bank takes account of the regulatory conversion factors set out in the CRR.

The effective interest rate determined at initial recognition or an approximation thereof is used as a discount factor. In the case of a purchased or originated credit-impaired financial asset (POCI item), the credit-adjusted effective interest rate determined at initial recognition is used for discounting. In connection with financial guarantee contracts and financial instruments for which the effective interest rate cannot be determined, SID Bank uses the weighted interest rate of performing exposures in its credit portfolio.

SID Bank calculates the expected credit losses on financial instruments classified as Stage 3 on the basis of the methodology of cash flow estimation (going concern) or collateral estimation (gone concern), taking into account forward-looking information.

In the case of a purchased or originated credit-impaired financial asset (POCI item) that is defined as a non-performing exposure, SID Bank calculates the expected credit losses on the basis of the Stage 3 methodologies. In the case of a purchased or originated credit-impaired financial asset (POCI item) that becomes a performing exposure, SID Bank calculates the expected credit losses on the basis of the Stage 2 methodology.

Forward-looking information

In the determination of probability of default, SID Bank takes account of forward-looking information on the basis of the correlation between the default rate and a macroeconomic indicator derived from GDP growth.

In the determination of loss given default, SID Bank takes account of forward-looking information concerning the parameter of recovery rate for an unsecured exposure and the parameter of haircut (HC) in the form of factors of macroeconomic forecasts.

When determining the dependence of the parameter of recovery rate for an unsecured exposure on the state of the economy, SID Bank examined the recovery rates for unsecured exposures depending on the value of a macroeconomic indicator derived from GDP growth.

In order to calculate the factors of macroeconomic forecasts for the haircut parameter, SID Bank divided collateral into two groups:

- real estate collateral (commercial and residential real estate); and
- other types of collateral (securities, movable property and receivables).

In order to identify the dependence of real estate values on the state of the economy, SID Bank took account of the correlation between the index of the Surveying and Mapping Authority of the Republic of Slovenia and a macroeconomic indicator derived from GDP growth, and the correlation between the collateral values from the Bank's portfolio and a macroeconomic indicator derived from GDP growth for other types of collateral.

SID Bank takes account of standard factors of macroeconomic forecasts to calculate expected credit losses for the entire portfolio. The factors of macroeconomic forecasts are taken into account in the calculation of individual points on the LGD curve for financial instruments classified in Stages 1 and 2, and in the calculation of estimated repayments for financial instruments classified in Stage 3.

In the calculation of expected credit losses, SID Bank takes into account three scenarios of macroeconomic forecasts, and may take account of more in the event of expected major shocks. In general, the scenarios comprise the baseline, favourable and adverse projections of major macroeconomic factors. The gap between the favourable and adverse scenarios reflects the internally evaluated risk in the domestic and foreign macrofinancial environments.

	Annual GDP growth, %							
	Slovenia				Euro area			
	2020	2021	2022	2023	2020	2021	2022	2023
Baseline scenario	−8.0	3.5	3.7	2.8	−8.0	5.0	3.0	2.8
Favourable scenario	−6.0	4.0	3.5	2.6	−7.0	8.0	3.5	2.8
Adverse scenario	−9.3	−1.2	3.1	3.4	−10.3	−1.6	2.7	3.0

The COVID-19 pandemic caused a sudden and sharp drop in economic activity, requiring supervisory authorities, the European Commission and the International Accounting Standards Board (IASB) to respond by issuing guidance instructing banks to take into account the flexibility and judgement permitted under IFRS 9 when assessing credit parameters for the purpose of estimating expected credit losses in situations when relevant and verifiable information regarding past events, current conditions and forecasts of future economic circumstances is unreliable, and not to automatically use their own existing approaches for assessing expected credit losses in order to mitigate any unjustified effect of the COVID-19 crisis on the level of expected credit losses and thus on the profitability and capital adequacy of banks.

The table indicates the annual GDP growth rates that SID Bank took into account in the calculation of expected credit losses according to the situation as at 31 December 2020. In its baseline scenario of growth in Slovenian GDP, SID Bank took into account the forecasts of the Institute of Macroeconomic Analysis and Development, and in the forecast of GDP growth for the euro area the macroeconomic forecasts of the European Commission, European Central Bank and IMF.

Despite the sharp decline in economic activity in 2020, the quality of SID Bank's credit portfolio did not deteriorate. Due to the adoption of extensive packages of measures to limit the negative effects of the COVID-19 pandemic by individual countries, the European Central Bank, the competent supervisory authorities of individual countries and the European Commission, a delayed deterioration in the Bank's credit portfolio quality is expected. The economic situation still remains uncertain, while the measures to limit the negative effects of the COVID-19 pandemic are temporarily concealing the severity of the problems that companies are facing. It is also expected that once the measure to defer the payment of liabilities expires there will be a sudden deterioration in the quality of the credit portfolio due to delays by borrowers. In the past, delays by borrowers were an important indication for banks of borrowers' liquidity problems, which were reflected in downgrades.

SID Bank took these expectations into account in the calculation of credit parameters and expected credit losses according to the situation as at 31 December 2020, which included the delay in the realisation of macroeconomic forecasts. SID Bank took account of 75% of the 2020 macroeconomic forecast in 2021. SID Bank took account of the remaining 25% of the macroeconomic forecast for 2020 and 75% of the 2021 macroeconomic forecast in 2022. The macroeconomic forecasts for 2022 and 2023 have been taken into account in their entirety, and with a delay of one year.

Sensitivity analysis of macroeconomic variables

Change to GDP growth	Impact on PD (basis points)	Impact on LGD (basis points)	Impact on ECL (in EUR thousand)
+100 basis points	−13.71	−129.67	−3,865
−100 basis points	15.57	260.27	4,393

The table shows a sensitivity analysis of the effect of a change in GDP growth by +/- 100 basis points on the level of the probability of default, loss given default and expected credit losses (ECL) according to the situation as at 31 December 2020. A change in GDP under the baseline scenario in the period 2020 to 2023 is taken into account. The sensitivity analysis does not include the delay in the realisation of macroeconomic forecasts that SID Bank took into account in the calculation of credit parameters and expected credit losses according to the situation as at 31 December 2020.

Forborne loans

Forborne loans are loans for which forbearance measures were applied that consist of concessions (allowances) to a customer that is experiencing or is about to experience difficulties in meeting its financial commitments (financial difficulties).

The Bank assesses financial difficulties and the ability to repay a debt at the customer level during the forbearance of loans. In doing so, account is taken of all the legal entities within the customer's group that are subject to consolidation for accounting purposes, and the natural persons who control this group.

The concession relates to one of the following actions:

- a change in the terms of the repayment of the investment transaction, when such change would have been otherwise unapproved had the customer not found themselves in a difficult situation with regard to meeting its financial commitments;
- partial or complete refinancing of the investment transaction, when such refinancing would have been otherwise unapproved had the customer not found themselves in a difficult situation with regard to meeting its financial commitments.

All differences resulting from forbearance are recognised in profit or loss.

For the purpose of making a decision on adopting the forbearance measure, the Bank obtains information on the effects of forbearance on the Bank's financial assets, and, generally, also information on the economic effects of forbearance compared to other alternative solutions (e.g. collateral liquidation, sale of financial assets, contract termination).

The Bank provides analytical records for forborne loans in its books of account, including information about the method of forbearance (via an annex or a new contract), the types of forbearance, the dates of forbearance, and effects that change the value of loans, including the effects of write-offs and derecognition from the statement of financial position, a change in the probability of loss, a change in the customer's credit rating and any changes in the status of the forborne loans.

The new developments in hedge accounting brought about by the introduction of IFRS 9 in 2018 include: the abolition of the measurement of hedge effectiveness, time value of options and forward points, determination of the total exposure of hedged items, the possibility of hedging separate components of risk, and prohibition of voluntary discontinuation of hedging relationships.

Eligible hedging instruments are:
- derivatives measured at fair value through profit or loss;
- non-derivative financial assets or non-derivative financial liabilities measured at fair value through profit or loss; and
- contracts with parties external to the Group and Bank.

Undertakings may use hedge accounting in accordance with IAS 39 until the new standard on macro-hedging is published by the IASB. SID Bank uses this option.

2.3.9 Derivatives and hedge accounting

The Bank classifies derivatives as financial instruments held for trading and financial instruments used for hedging. Derivatives are initially recognised at fair value in the statement of financial position. Fair values are determined on the basis of prices quoted on an active market, and using the discounted future cash flow method or pricing models, depending on the specific derivative. Derivatives are recognised in the statement of financial position as assets if their fair value is positive and as a liability if their fair value is negative.

Changes in the fair value of derivatives that are not deemed hedging instruments are disclosed in profit or loss in the item net gains/losses on financial assets and liabilities held for trading.

Financial instruments held for hedging include those derivatives that meet the conditions for hedge accounting.

Hedge accounting means the booking of a hedging 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 hedging relationship should be formally noted and appropriately documented.

When a hedging relationship is introduced, the Bank must produce a formal document that describes the relationship between the hedged item and the hedging instrument, the purpose of risk management, the valuation methodology and the hedging strategy. The Bank must also document the assessment of the effectiveness of hedging instruments that are exposed to changes in the fair value of the hedged item or the hedged cash flows of the transaction that are attributable to the hedge in question. These are the conditions that must be met for hedging relationships to be eligible. The Bank assesses hedge effectiveness at the conclusion of a transaction and then during the hedging relationship, where hedge effectiveness must fall within a range of 80% to 125%.

Fair value hedge

According to IAS 39, a fair value hedge is a hedge against exposure to changes in the fair value of a recognised asset or liability or a previously unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that can be attributed to a particular risk or could affect profit or loss.

The Bank uses interest rate swaps as hedging instruments.

With an effective hedge, changes in the fair value of hedging instruments (derivatives) are recognised immediately in profit or loss under the item of changes in fair value in hedge accounting.

If a hedged item is measured at historical cost, the carrying amount of that item is adjusted for the gain or loss associated with the hedged item that can be attributed to the hedge risk, while that gain or loss is also recognised in profit or loss under the item changes in fair value in hedge accounting.

If a hedged financial asset is measured at fair value through other comprehensive income, the gain or loss attributable to the hedged risk is recognised in profit or loss under the item changes in fair value in hedge accounting and not in other comprehensive income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, when the hedge no longer meets the hedge accounting criteria or the Bank revokes the hedge designation.

If a hedging relationship fails to meet several conditions for hedge accounting, the ineffective hedge in the form of a derivative is disclosed in profit or loss in the item net gains/losses on financial assets and liabilities held for trading. An adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is used is transferred to profit or loss over the remaining period until maturity. An adjustment to the carrying amount of a hedged equity instrument is included in profit or loss at the time of sale.

Cash flow hedge

According to IAS 39 a cash flow hedge is a hedge against exposure to variability in cash flows that can be attributed to a particular risk. A hedge relates to exposure to variability in cash flows associated with a recognised asset or liability, or highly probable planned or forecast transactions (or individual parts of those three), which could affect profit or loss.

Hedging instruments are any derivatives that can hedge against exposure to variability in the relevant cash flows. Hedging instruments are recognised at fair value in the statement of financial position. The Bank uses interest rate swaps as hedging instruments.

Changes in the fair value of a hedging instrument are divided into the effective part of a hedge and the ineffective part of a hedge. The effective part of a hedge is recognised directly in equity (in other comprehensive income), while the ineffective part of a hedge is recognised immediately in profit or loss under the item of changes in fair value in hedge accounting.

Amounts recognised directly in equity are reclassified from other comprehensive income to profit or loss in the period in which the hedged item affects profit or loss.

The Bank discontinues hedge accounting when the hedging instrument expires or is sold, terminated or exercised, when the hedge no longer meets the hedge accounting criteria, when a forecast transaction is no longer expected to occur or the Bank revokes the hedge designation.

The cumulative gain or loss associated with a hedging instrument that is recognised directly in equity (in other comprehensive income) from the period when the hedge was effective is reclassified to profit or loss in the period in which the hedged forecast cash flow affects profit or loss. If it is no longer expected that a forecast transaction will occur, the associated accumulated gain or loss that was recognised directly in equity (in other comprehensive income) is transferred immediately to profit or loss.

2.3.10 Investments in subsidiaries, associates and joint ventures

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

If there is evidence of the need for the impairment of an investment in a subsidiary or joint venture, the Bank assesses the recoverable amount for each investment separately. In the case of investments in subsidiaries where there is no goodwill at the time of acquisition, an assessment is made of whether there is any indication of impairment on the reporting date, and if there is such indication, an impairment test is conducted. In the case of investments in a joint venture, an impairment test is carried out on the basis of a goodwill impairment test of cash-generating units that includes goodwill. In the case of consolidated financial statements, a goodwill impairment test is carried out at each reporting date for cash-generating units.

Investment impairment tests are made in accordance with the commercial expectations of the individual investment.

The basis for the test is the valuation of an investment. 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.

2.3.11 Property, plant and equipment and intangible assets

Property, plant and equipment

Property, plant and equipment comprise real estate, equipment and supplies.

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 of maintenance and repairs in connection with an item of property, plant and equipment are disclosed as costs in profit or loss. Investments in existing property, plant and equipment that increase the future economic benefits increase the value of the aforementioned assets.

After initial recognition a cost model is applied, which means that items of property, plant and equipment are recorded at original cost minus the accumulated depreciation and accumulated impairment loss.

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

Property, plant and equipment become subject to depreciation once the asset is available for use. Depreciation is charged on a straight-line basis.

Depreciation rates applied in 2020 and 2019:

(%)	
Buildings and parts of buildings	5
Computer equipment	50
Cars	12.5
Furniture	11
Other equipment	25
Supplies	25

Property, plant and equipment are impaired when their carrying amount exceeds their recoverable amount. The impairment loss is recognised as an expense in profit or loss. The existence of indications of impairment is assessed at the end of each financial year, on the reporting date. 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 higher.

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

Intangible assets with determinable useful life

This item includes investments in software and licences. In 2020 and 2019, software and licences were subject to amortisation at a rate of 20%. Amortisation is charged on a straight-line basis.

Intangible assets with a determinable useful life are impaired when their carrying amount exceeds their recoverable amount. The impairment loss is recognised as an expense in profit or loss. The existence of indications of impairment of intangible assets is assessed at the end of each financial year, on the reporting date. 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 value is higher.

After initial recognition, intangible assets with a determinable 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.

2.3.12 Accounting for leases

The Bank identifies contracts that satisfy the definition of a lease in accordance with IFRS 16. A lease is defined as a contract or part of a contract that defines the right to control the use of an identified asset for a period of time in exchange for consideration.

On the day a lease commences, the Bank (as lessee) recognises a right-of-use asset and lease liability. The Bank measures a right-of-use asset at cost on the day a lease commences. The Bank keeps analytical records of assets under lease recognised as right-of-use assets on the appropriate real estate, equipment and investment property accounts.

The value of right-of-use assets comprises the amount of the initially measured lease liability adjusted for all lease payments made at or prior to the commencement of a lease, any lease incentives, initial direct costs incurred by the lessee and estimated costs that the lessee will incur at the end of the lease. A right-of-use asset is treated similarly to other non-financial assets and is thus depreciated accordingly. Right-of-use assets under lease are depreciated linearly from the day a lease commences until the end of an asset's useful life or until the end of the lease term, if the latter is shorter.

A lease liability is calculated as the present value of future lease payments, discounted at the rate implicit in the lease if that rate can be determined; otherwise the incremental borrowing rate is assumed. The Bank transfers lease liabilities to other interest expense, together with lease payments to the lessor.

The Bank assumes a five-year lease term for the calculation of net present value for contracts concluded for an indefinite period.

The Bank applied the following practical expedients provided for by the standard:

- the Bank does not separate non-lease components from lease components; instead all lease components and the associated non-lease components are treated as a single lease component; and
- the Bank does not apply IFRS 16 to leases of intangible assets.

The Bank applies the following exemptions permitted by the standard at the time of recognition:

- short-term leases (leases of up to 12 months); and
- low-value leases (the original cost of a new asset under lease does not exceed the euro equivalent of USD 5,000, regardless of the age of the asset).

The Bank recognises lease payments associated with such leases as leasing costs.

2.3.13 Other assets

Other assets include prepayments, accrued income, tax assets and advances.

Other assets are recognised in the amounts arising from the relevant documents, on the assumption that they will be recovered. The fair value, i.e. recoverable amount, is examined for other assets in various ways on the reporting date. If there is objective evidence of other assets disclosed at amortised cost having undergone an impairment loss, that loss is disclosed as impairments in connection with other assets; the carrying amount of the other assets is reduced by the conversion in the value adjustment subsidiary account.

2.3.14 Provisions for liabilities and costs

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

Provisions for liabilities and costs are recognised when there is a present commitment (legal or indirect) as a result of a past event, and when 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. Provisions are reversed when excessive provisions are established or when contingent losses in connection with risks are reduced.

SID Bank recognises provisions for off-balance-sheet liabilities on the basis of the procedures cited in section 2.3.8 under the title Impairments of financial assets and provisions.

2.3.15 Employee benefits

Employee benefits include current and non-current employee benefits.

Current employee benefit commitments are recognised in an undiscounted amount, and are disclosed as expenses when the work of the employee is performed in respect of the specific current benefit.

Non-current employee benefits include provisions for termination benefits at retirement and jubilee benefits.

Legislation stipulates that employees generally retire after 40 years of service, and are then entitled to a one-off termination benefit at retirement, provided that the stipulated conditions are met. Employees are also entitled to jubilee benefits in accordance with the collective agreement. The aforementioned commitments and all corresponding gains/losses are included in profit or loss.

The requisite provisions on this basis are calculated in the amount of the present value of future expenses, having regard for certain assumptions. 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 the average wage of employees in the final quarter. Provisions of this type are calculated every year.

2.3.16 Other liabilities

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

2.3.17 Shareholder equity

Shareholder equity consists of share capital, share premium, profit reserves, accumulated other comprehensive income, 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.

Share premium may be used in accordance with the law to cover losses and increase capital.

Profit reserves are recognised when created by the body that compiles the annual report or by a resolution of the competent body, and are used in accordance with the articles of association and the law.

Reserves under the articles of association may be used to cover net loss during the financial year, to cover net losses brought forward, to increase the share capital, to create reserves for treasury shares and to cover major damage incurred during operations or extraordinary business events. Other profit reserves are intended to strengthen capital adequacy.

Recorded in accumulated other comprehensive income are accumulated gains/losses from changes in the fair value of equities and debt instruments measured at fair value through other comprehensive income, and gains/losses in connection with cash flow hedging, increased/decreased for any deferred taxes.

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

2.3.18 Interest income and expenses

Interest income and interest expenses include income and expenses for interest on loans granted and received, interest on derivatives, interest on financial assets measured at fair value through other comprehensive income 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.

Due to technical barriers, when disclosing interest on Stage 3 financial assets and thus also interest on non-performing financial assets measured at fair value through profit or loss, the Bank applies a conservative approach under which a higher amount of interest (including interest that relates to the unimpaired portion of principal) is credited to impairments for credit losses, and this interest is not recognised in the income statement until its payment is made. Upon payment, only interest from the unimpaired portion of the loan principal is recognised under interest income in the income statement if the loan is measured at amortised cost, or interest from the loan's fair value if the loan is measured at fair value. In the event of payment, the interest relating to the remainder of the principal is recognised by the Bank under revenues from the reversal of impairments if the loan is measured at amortised cost, or under net gains on non-trading financial assets mandatorily at fair value through profit or loss if the loan is measured at fair value.

For financial assets measured at fair value through other comprehensive income, interest income calculated on the basis of amortised cost using the effective interest rate method is calculated on the basis of yield-to-maturity.

2.3.19 Dividend income

Dividend income is recognised in profit or loss when the right to receive dividends is acquired, and it is probable that the economic benefits associated with the transaction will flow to the undertaking.

2.3.20 Fees and commission received and granted

Fees and commission included in the calculation of the effective interest rate of a financial asset or financial liabilities are disclosed under interest income or interest expenses. The item 'fee and commission income' thus includes fees and commission on granted guarantees and approved credit operations, which are not included in the effective interest rate, while 'fee and commission expenses' comprise fees and commission for loan borrowings, for stock exchange transactions, and for other services provided (services related to the payment and management of bank assets at another institution).

Fee and commission income, except for those comprising a constituent part of the effective interest rate, shall be accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. In accordance with IFRS 15 revenue is recognised when a bank fulfils (or is fulfilling) its performance obligation by transferring the services (i.e. asset) promised to the customer. An asset is deemed to have been transferred when the customer obtains control of the asset. If the performance obligation is fulfilled at a specific point in time, the revenues connected therewith are recognised in the income statement when a service is rendered. If the performance obligation is fulfilled over a certain time period, the revenues connected therewith are recognised in the income statement in accordance with the progress made in fulfilling obligations. Due to these rules the Bank recognises the fees and commission from approved credit operations at the moment when a service is rendered, while recognising the fees and commission for granted guarantees over the duration of the contract.

The amount of revenues connected with fees and commission is measured on the basis of contractual provisions. If the amount provided in the contract depends entirely or partially on variability, revenues are booked in the amount of the most probable value that a bank expects.

Fees and commission are generally recognised in profit or loss, when a service has been rendered.

2.3.21 Net gains/losses on financial assets and liabilities not measured at fair value through profit or loss

Net gains/losses on financial assets and liabilities not measured at fair value through profit or loss include realised gains/losses from purchases and disposal of financial assets and liabilities not measured at fair value through profit or loss, i.e. financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured at amortised cost.

Here the Bank also discloses gains/losses from the operations of four loan funds that it created together with the MEDT. They are recognised on the basis of a contractually agreed first loss clause: any loss on the part of the funds is first covered by the priority participation of the MEDT in loan fund risks by reducing the liabilities to the MEDT, which it discloses under financial liabilities measured at amortised cost.

2.3.22 Net gains/losses on financial assets and liabilities held for trading

Net gains/losses on financial assets and liabilities held for trading include realised and unrealised gains/losses on financial assets held for trading, including derivatives that were not concluded for hedging purposes, and also net gains/losses from the purchase and sale of foreign currencies.

2.3.23 Net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss

Net gains/losses on financial assets mandatorily at fair value through profit or loss include realised and unrealised gains/losses relating to equities, as well as the effects of measurement and realised effects connected with debt securities, and loans and other financial assets that do not meet the conditions for measurement at amortised cost.

2.3.24 Changes in fair value in hedge accounting

In connection with fair value hedging, which fulfils the conditions for hedge accounting, the profit or loss of hedging instruments are recognised immediately in profit or loss under the item of changes in fair value in hedge accounting. Gain or loss associated with a hedged item is also recognised under changes in fair value in hedge accounting.

In connection with cash flow hedges, which fulfil the hedge accounting conditions, a portion of the gain or loss associated with a hedge instrument, which is defined as the effective part of a hedge, is recognised directly in equity (in other comprehensive income), while the ineffective part of a hedge is recognised in profit or loss under the item of changes in fair value in hedge accounting. Gains or losses recognised in equity are reclassified to profit or loss in the same period in which the hedged item affects net profit or loss.

2.3.25 Other net operating income/expenses

Other net operating income/expenses recognised in profit or loss include income and expenses from non-banking services.

Income for non-banking services include fees charged for services provided under authorisation and other services.

Income is recognised when the contractual obligation has been performed, i.e. when the goods and services have been transferred to the customer. It is recognised in an amount that reflects the consideration to which the undertaking expects to be entitled.

2.3.26 Government grants

The Bank recognises government grants when there is a reasonable assurance that the Bank will comply with the conditions attaching to them and the grants will be received. The government grant received by the Bank as compensation for already incurred expenses or losses or as immediate aid not connected with any additional costs is recognised in the profit or loss in the period for which the Bank receives the grant. The Bank deducts grants connected with income from the expenses disclosed in relation to these grants.

The Bank received no government grants in 2019 and 2020.

2.3.27 Taxes

Corporate income tax is accounted for in accordance with local legislation.

Deferred taxes are accounted for 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 taxes in connection with the valuation of financial instruments measured at fair value through other comprehensive income are disclosed directly in other comprehensive income.

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. Despite the uncertainties connected with the impact of the COVID-19 pandemic on external factors, the Bank recognised deferred tax assets for all deductible temporary differences.

2.3.28 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 income statement to the number of shares making up its share capital. Own shares held in treasury are not included in the calculation.

2.3.29 Contingent liabilities and financial commitments given

Financial and service guarantees, approved undrawn loans and credit lines and unpaid capital are disclosed under financial commitments given.

Financial commitments given for sureties comprise irrevocable commitments for when a customer fails to meet its liabilities to third parties.

The risks related to contingent liabilities and financial commitments given are assessed on the basis of current accounting policy and internal regulations in connection with risk management described in section 2.3.8 under the title Impairments of financial assets and provisions. Any increase in liabilities dependent on risk is reflected in the item of provisions.

2.3.30 Operations for the account of the Republic of Slovenia

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

The insurance operations that SID Bank provides on behalf of and for the account of the Republic of Slovenia are disclosed under 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.

Operations on its own behalf and for the account of the Republic of Slovenia

The operations of the FI 2014-2020 Fund of Funds and the COVID-19 Fund of Funds that SID Bank manages on its own behalf and for the account of the Republic of Slovenia are recorded as separate items. The assets and liabilities relating to these funds are not included in the Bank's statement of financial position.

Explanations of the operations under Republic of Slovenia authorisation are given in the section of the business report entitled Operations under Republic of Slovenia authorisation.

2.3.31 Reporting by operating segment

Under IFRS 8, SID Bank has one operating segment: banking. The banking segment constitutes a single operating segment, as the operations at the Bank do not vary significantly in terms of risk or return.

The majority of SID Bank's operations are on the domestic market, for which reason it does not disclose additional itemisation by geographical area.

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

Accounting standards, and amendments to and interpretations of existing standards that were issued by the IASB and adopted by the EU effective as of 1 January 2020

- Amendments to References to the Conceptual Framework in IFRS Standards, as adopted by the EU on 29 November 2019 and effective for annual periods beginning on or after 1 January 2020.
- Amendment to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies: Definition of Material, as adopted by the EU on 29 November 2019 and effective for annual periods beginning on or after 1 January 2020. The amendment aims to make it easier for undertakings to assess materiality, and to decide on the inclusion of information in their financial statements.
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures – Interest Rate Benchmark Reform, adopted by the EU on 15 January 2020 (applicable to annual periods beginning on or after 1 January 2020).
- Amendments to IFRS 3 Business Combinations: Definition of a Business, as adopted by the EU on 21 April 2020 and effective for annual periods beginning on or after 1 January 2020. The amendment aims to improve the definition of a business. It should help undertakings in determining whether they have acquired a business or a group of assets. The distinction is material, because an acquirer recognises goodwill when acquiring a business.
- Amendment to IFRS 16 Leases: COVID-19-Related Rent Concessions, adopted by the EU on 9 October 2020 and effective for annual periods beginning on or after 1 June 2020. The amendment introduces the possibility of simplifying rent concessions that are the direct result of COVID-19.

The adoption of these amendments to existing standards did not lead to any major changes in the Bank's financial statements.

Accounting standards, and amendments to and interpretations of existing standards that were issued by the IASB and adopted by the EU, but are not yet in effect for the financial year beginning on 1 January 2020

- Amendments to IFRS 4 Insurance Contracts – Deferral of IFRS 9, adopted by the EU on 15 December 2020 and effective for annual periods beginning on or after 1 January 2021. The amendments focus on the temporary accounting effects of the different effective dates of IFRS 9 and the future IFRS 17.
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases: Interest Rate Benchmark Reform – Phase 2, as adopted by the EU on 13 January 2021 and effective for annual periods beginning on or after 1 January 2021. These amendments ensure special accounting treatment so that changes in the value of financial instruments or lease contracts, which arise due to the interest rate

benchmark being replaced, are distributed over time, which prevents a sudden effect on profit or loss, also preventing unnecessary termination of hedges due to the replacement of the interest rate benchmark.

The Bank has not opted for the early application of amendments to standards that have not yet entered into effect, and assesses that those amendments will not have a material impact on its financial statements during initial application.

Accounting standards, and amendments to and interpretations of existing standards that were issued by the IASB, but not yet adopted by the EU

- IFRS 17 Insurance Contracts. The standard is effective for annual periods beginning on or after 1 January 2023. It provides a comprehensive framework for the measurement and presentation of all insurance contracts.
- Amendments and deferral of the effective date of amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, effective for annual periods beginning on or after 1 January 2023.
- Amendments to IFRS 3 Business Combinations, effective for annual periods beginning on or after 1 January 2022.
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use, effective for annual periods beginning on or after 1 January 2022.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022).
- Annual Improvements to IFRSs 2018-2020 Cycle, effective for annual periods beginning on or after 1 January 2022.
- Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies, effective for annual periods beginning on or after 1 January 2023.
- Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, effective for annual periods beginning on or after 1 January 2023.

The Bank does not expect the introduction of these new standards, amendments and interpretations to have a material impact on its financial statements during initial application. The Bank decided not to apply any new standards or amendments to the existing ones before the date of mandatory application.

2.3.33 Interest rate reform

In connection with the interest rate benchmark reform SID Bank set up an internal working group that regularly monitors current events related to changes to the interest rate benchmark reform and briefs the competent committees, as required.

An adjustment was made in 2020 to the contractual provisions that set the EURIBOR reference interest rate in financing transactions. A generic definition of the EURIBOR substitute reference interest rate was used in accordance with the then applicable recommendations of the private sector working group on risk-free interest rates under the aegis of the ECB. The adjustment of contractual provisions relates to the case of the temporary and permanent termination or change to the EURIBOR reference interest rate. These adjusted contractual provisions are used in newly concluded contracts, while changes in existing contracts are being implemented gradually.

In the future the internal working group will monitor the recommendations of the private sector working group on risk-free interest rates under the aegis of the ECB, and the best practices of domestic and foreign banks. In addition, the signing of various ISDA protocols that standardise the transition to substitute reference interest rates in derivative transactions has been envisaged.

2.3.34 Comparable data

The scheme of the income statement changed in 2020 in accordance with the Bank of Slovenia's regulations. The Bank adjusted the presentation of comparable financial statements for the year ending 31 December 2019 to this change.

The change had an effect on the disclosure of expenses associated with the payment of taxes, other levies, membership fees and similar expenses that are now included in administrative expenses, and were previously included in other net operating income/expenses prior to the change.

	2019		
	old presentation	change	new presentation
Other net operating income/(expenses)	2,488	269	2,757
Administrative expenses	(15,562)	(269)	(15,831)

2.4 Notes to the statement of financial position

2.4.1 Cash, cash balances at central banks and other demand deposits at banks

	31 Dec 2020	31 Dec 2019
Cash balances and the reserve requirement (minimum reserves) at central bank	119,303	72,673
Demand deposits at banks	884	56
Total	**120,187**	**72,729**

2.4.2 Non-trading financial assets mandatorily at fair value through profit or loss

Breakdown by type of non-trading financial asset mandatorily at fair value through profit or loss

	31 Dec 2020	31 Dec 2019
Equity instruments	17,432	4,758
Shares (of independent undertakings)	2,500	2,500
Investment coupons	13,666	2,258
Equity holdings	1,266	0
Loans and other financial assets	17,765	12,927
Loans and advances to customers	17,765	12,927
Total	**35,197**	**17,685**

The increase in equity instruments is the result of the Slovene Equity Growth Investment Programme (SEGIP), which was put in place in 2017 at the initiative of SID Bank in collaboration with the European Investment Fund (EIF) and on the basis of payments into the Three Seas Initiative Investment Fund.

Changes in non-trading financial assets mandatorily at fair value through profit or loss

	2020	2019
Equity instruments		
Balance as at 1 Jan	4,758	0
Increase	16,953	4,791
Acquisition	14,927	4,369
Changes in fair value (increases)	2,026	422
Decrease	(4,279)	(33)
Sale and redemption	(1,536)	0
Changes in fair value (reversal of increases)	(2,743)	(33)
Balance as at 31 Dec	**17,432**	**4,758**
Loans and other financial assets		
Balance as at 1 Jan	12,927	15,667
Increase	14,362	15,142
Calculated interest, fees and commissions	1,334	1,843
Changes in fair value (increases)	13,028	13,299
Decrease	(9,524)	(17,882)
Sale	0	(3,799)
Repayments	(5,063)	(13,099)
Changes in fair value (reversal of increases)	(4,461)	(984)
Balance as at 31 Dec	**17,765**	**12,927**

2.4.3 Financial assets measured at fair value through other comprehensive income

Breakdown by type of financial asset measured at fair value through other comprehensive income

	31 Dec 2020	31 Dec 2019
Debt securities	876,566	658,019
Bonds	840,119	651,226
Government	587,091	470,255
Slovenia	336,020	327,571
Other countries	251,071	142,684
Banks	134,024	126,243
Non-financial corporations	100,764	42,767
Financial institutions	18,240	11,961
Treasury bills and commercial paper	36,447	6,793
Equities	6,540	6,547
Shares and participating interests	6,540	6,547
Total	**883,106**	**664,566**
Quoted	863,912	643,540
Unquoted	19,194	21,026
Total	**883,106**	**664,566**
Impairments for credit losses	(897)	(309)

The standard institutional sector classification of the bond issuer is taken into account in the breakdown of the bond portfolio by the issuer type in the table.

In its securities portfolio management, SID Bank follows the principles of safety, liquidity and profitability in order to ensure liquidity and ALM. To this end, the securities portfolio contains a large proportion of marketable government securities and other highly liquid debt securities.

Debt securities measured at fair value through other comprehensive income increased by 33% in 2020. The increase was the result of securing long-term funding sources on international capital markets through the issue of COVID-19 bonds and additional long-term borrowing from the central bank. The increase in the scope of debt securities is only expected to be temporary by nature, as the new sources of funding will be earmarked for new financing transactions in the future in accordance with the authorised mandates.

The total carrying amount of pledged financial assets measured at fair value through other comprehensive income amounted to EUR 461,810 thousand at the end of 2020 (as at 31 December 2019: EUR 273,310 thousand). The securities were pledged as collateral for targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia or the ECB.

Changes in financial assets measured at fair value through other comprehensive income – debt securities

	2020		2019		
	Stage 1	Total	Stage 1	Stage 2	Total
Balance as at 1 Jan	658,019	658,019	650,871	0	650,871
Recognition of new financial assets	434,386	434,386	220,360	0	220,360
Transfer from Stage 1 to Stage 2	0	0	(209)	209	0
Accrued interest	3,478	3,478	4,525	2	4,527
Interest paid	(13,415)	(13,415)	(14,827)	(8)	(14,835)
Net changes in fair value	4,057	4,057	7,908	(3)	7,905
Effect of change in fair value of hedged financial instruments	238	238	493	0	493
Derecognition of financial assets	(210,197)	(210,197)	(211,102)	(200)	(211,302)
Balance as at 31 Dec	**876,566**	**876,566**	**658,019**	**0**	**658,019**

Changes in financial assets measured at fair value through other comprehensive income – equities

	2020	2019
Balance as at 1 Jan	6,547	11,817
Net changes in fair value	(7)	(328)
Derecognition of financial assets	0	(4,942)
Balance as at 31 Dec	**6,540**	**6,547**

2.4.4 Financial assets measured at amortised cost

Breakdown by type of financial asset measured at amortised cost

	31 Dec 2020	31 Dec 2019
Loans and advances to banks	783,725	835,770
Loans and advances to customers	1,073,795	803,623
Other financial assets	1,230	5,261
Total	**1,858,750**	**1,644,654**

Loans and advances to banks

	31 Dec 2020	31 Dec 2019
Loans and advances	682,666	732,222
Deposits	103,804	104,953
Gross exposure	786,470	837,175
Loss allowances	(2,745)	(1,405)
Net exposure	**783,725**	**835,770**

Changes in loans and advances to banks (gross exposure)

	Gross exposure	
2020	Stage 1	Total
Balance as at 1 Jan	837,175	837,175
Increase due to new loan drawdowns	252,271	252,271
Decrease due to repayments	(303,293)	(303,293)
Other net changes	331	331
Foreign exchange differences	(14)	(14)
Balance as at 31 Dec	**786,470**	**786,470**

	Gross exposure	
2019	Stage 1	Total
Balance as at 1 Jan	810,041	810,041
Increase due to new loan drawdowns	310,379	310,379
Decrease due to repayments	(283,905)	(283,905)
Other net changes	575	575
Foreign exchange differences	85	85
Balance as at 31 Dec	**837,175**	**837,175**

Changes in loans and advances to banks (loss allowances)

	Loss allowances	
2020	Stage 1	Total
Balance as at 1 Jan	(1,405)	(1,405)
Increase due to new loan drawdowns	(482)	(482)
Decrease due to repayments	332	332
Net change due to change in credit risk	(1,190)	(1,190)
Net changes with effects on profit or loss	(1,340)	(1,340)
Balance as at 31 Dec	**(2,745)**	**(2,745)**

	Loss allowances	
2019	Stage 1	Total
Balance as at 1 Jan	(691)	(691)
Increase due to new loan drawdowns	(300)	(300)
Decrease due to repayments	214	214
Net change due to change in credit risk	(628)	(628)
Net changes with effects on profit or loss	(714)	(714)
Balance as at 31 Dec	**(1,405)**	**(1,405)**

Loans and advances to customers

	31 Dec 2020	31 Dec 2019
Loans and advances	1,099,676	802,633
Government	126,235	80,700
Non-financial corporations	972,956	721,440
Financial institutions	485	483
Non-profit institutions serving households	0	10
Receivables from factoring	43,780	43,237
Gross exposure	1,143,456	845,870
Loss allowances	(69,661)	(42,247)
Net exposure	**1,073,795**	**803,623**

Due to a change to the Bank of Slovenia's implementing regulations, which set out the treatment and reporting on interest on Stage 3 financial assets, the Bank transitioned to a new method for disclosing interest in 2020. This change resulted in an increase in the gross carrying amount of loans and advances to customers and an increase in loss allowances in the same amount, and in a decrease in interest income and an increase in income from the reversal of impairments in the same amount in the income statement.

The Bank increased loss allowances by EUR 5,542 thousand on account of unrecognised interest on loans to customers assigned to Stage 3 as at 31 December 2020. In the previous year, the Bank disclosed unrecognised interest on loans and advances to customers assigned to Stage 3 under gross exposure. Gross exposure was down by EUR 5,013 thousand as at 31 December 2019 on account of unrecognised interest on loans and advances to customers assigned to Stage 3.

The transition to the new disclosure method in 2020 caused a decline of EUR 152 thousand in interest income from loans and advances measured at amortised cost, and also an increase in income from the reversal of impairments in the same amount.

The total carrying amount of pledged loans amounted to EUR 95,404 thousand as at 31 December 2020 (31 December 2019: EUR 63,208 thousand).

The Bank pledged the loans as collateral for targeted longer-term refinancing operations (TLTROs) from the Bank of Slovenia or the ECB.

Changes in loans and advances to customers (gross exposure)

	Gross exposure				
2020	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	714,272	93,627	24,654	13,317	845,870
Transfer from Stage 1 to Stage 2	(130,511)	130,511	0	0	0
Transfer from Stage 1 to Stage 3	(44)	0	44	0	0
Transfer from Stage 2 to Stage 3	0	(2,124)	2,124	0	0
Transfer from Stage 2 to Stage 1	19,798	(19,798)	0	0	0
Transfer from Stage 3 to Stage 2	0	3	(3)	0	0
Increase due to new loan drawdowns/recognitions	448,842	5,627	0	22,700	477,169
Decrease due to repayments/derecognition	(142,300)	(11,659)	(1,193)	(25,911)	(181,063)
Other net changes	952	235	6,284	1,330	8,801
Modification of contractual cash flows (without derecognition)	(250)	(3)	(60)	(211)	(524)
Write-offs	0	0	(6,012)	0	(6,012)
Foreign exchange differences	(785)	0	0	0	(785)
Balance as at 31 Dec	**909,974**	**196,419**	**25,838**	**11,225**	**1,143,456**

2019	Gross exposure Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	639,821	45,995	20,383	21,340	727,539
Transfer from Stage 1 to Stage 2	(73,522)	73,522	0	0	0
Transfer from Stage 1 to Stage 3	(703)	0	703	0	0
Transfer from Stage 2 to Stage 3	0	(4,907)	4,907	0	0
Transfer from Stage 2 to Stage 1	3,691	(3,691)	0	0	0
Transfer from Stage 3 to Stage 2	0	139	(139)	0	0
Increase due to new loan drawdowns/recognitions	314,211	0	0	200	314,411
Decrease due to repayments/derecognition	(167,636)	(17,481)	(869)	(4,697)	(190,683)
Other net changes	(1,829)	21	56	393	(1,359)
Write-offs	0	0	(387)	(3,919)	(4,306)
Foreign exchange differences	239	29	0	0	268
Balance as at 31 Dec	**714,272**	**93,627**	**24,654**	**13,317**	**845,870**

Changes in loans and advances to customers (loss allowances)

2020	Loss allowances Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	(6,741)	(15,227)	(20,479)	200	(42,247)
Transfer from Stage 1 to Stage 2	2,607	(2,607)	0	0	0
Transfer from Stage 1 to Stage 3	1	0	(1)	0	0
Transfer from Stage 2 to Stage 3	0	507	(507)	0	0
Transfer from Stage 2 to Stage 1	(2,645)	2,645	0	0	0
Transfer from Stage 3 to Stage 2	0	(3)	3	0	0
Increase due to new loan drawdowns/recognitions	(4,513)	(518)	0	0	(5,031)
Decrease due to repayments/derecognition	513	1,226	604	(235)	2,108
Net change due to change in credit risk	(2,763)	(19,833)	(191)	(226)	(23,013)
Foreign exchange differences	28	0	0	0	28
Net changes with effects on profit or loss	(6,772)	(18,583)	(92)	(461)	(25,908)
Changes due to the derecognition or re-recognition of financial assets	0	0	347	(545)	(198)
Other changes without effects on profit or loss	0	(2)	(6,475)	(843)	(7,320)
Write-offs	0	0	6,012	0	6,012
Net changes without effects on profit or loss	0	(2)	(116)	(1,388)	(1,506)
Balance as at 31 Dec	**(13,513)**	**(33,812)**	**(20,687)**	**(1,649)**	**(69,661)**

2019	Loss allowances Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1 Jan	(8,438)	(6,847)	(16,172)	(4,962)	(36,419)
Transfer from Stage 1 to Stage 2	1,194	(1,194)	0	0	0
Transfer from Stage 1 to Stage 3	65	0	(65)	0	0
Transfer from Stage 2 to Stage 3	0	890	(890)	0	0
Transfer from Stage 2 to Stage 1	(587)	587	0	0	0
Transfer from Stage 3 to Stage 2	0	(594)	594	0	0
Increase due to new loan drawdowns/recognitions	(1,438)	0	0	0	(1,438)
Decrease due to repayments/derecognition	1,587	1,696	656	1,701	5,640
Net change due to change in credit risk	881	(9,765)	(4,989)	(458)	(14,331)
Foreign exchange differences	(5)	0	0	0	(5)
Net changes with effects on profit or loss	1,697	(8,380)	(4,694)	1,243	(10,134)
Write-offs	0	0	387	3,919	4,306
Net changes without effects on profit or loss	0	0	387	3,919	4,306
Balance as at 31 Dec	**(6,741)**	**(15,227)**	**(20,479)**	**200**	**(42,247)**

Other financial assets

	31 Dec 2020	31 Dec 2019
Fee and commission receivables	47	45
Trade receivables	660	672
Receivables on other bases	532	4,544
Gross exposure	1,239	5,261
Loss allowances	(9)	0
Net exposure	**1,230**	**5,261**

2.4.5 Hedging derivatives

Hedging derivatives – assets

	31 Dec 2020	31 Dec 2019
Instruments for hedging individual financial items		
Hedging of the fair value of issued bonds, measured at amortised cost		
Fair value	1,168	0
Net interest receivables	(15)	0
Total	**1,153**	**0**

Hedging derivatives – liabilities

	31 Dec 2020	31 Dec 2019
Instruments for hedging individual financial items		
Hedging of the fair value of bonds, measured at fair value through other comprehensive income		
Fair value	992	749
Net liabilities for interest	95	92
Total	**1,087**	**841**

Through interest rate swaps the Bank hedges against the interest rate risk associated with asset and liability items in accordance with the internally approved interest rate limits. When concluding interest-rate swaps the Bank applies rules governing the accounting treatment of hedges against fair value hedge risks.

As at 31 December 2020, the Bank held four long-term interest rate swaps as fair value hedges, two of which as fair value hedges of assets with a total contractual value of EUR 15,000 thousand, and the other two intended to hedge the fair value of bonds issued in 2020 with a total contractual value of EUR 175,000 thousand. As at 31 December 2020, the Bank held no cash flow hedge instruments.

All the hedge relationships among hedging instruments (interest rate swaps) and hedge items (purchased or issued long-term bonds) according to international accounting standards were extremely effective in 2020. This means that the profits or losses from the valuation of interest rate swaps, which are recognised in the income statement, could be neutralised due to the valuation of hedge items in the opposite direction. Profit amounted to EUR 126 thousand in that regard.

2.4.6 Investments in equity of joint ventures

2020	Prvi faktor, Ljubljana (in liquidation)	Prvi faktor, Beograd (in liquidation)	Total
Equity investments	15,337	279	15,616
Allowances for equity investments	(15,337)	(279)	(15,616)
Total	**0**	**0**	**0**

2019	Prvi faktor, Ljubljana (in liquidation)	Prvi faktor, Beograd (in liquidation)	Total
Equity investments	15,337	279	15,616
Allowances for equity investments	(15,337)	(279)	(15,616)
Total	**0**	**0**	**0**

Data on joint ventures

	Voting rights, %	Current assets	Current liabilities	Equity of undertaking	Net profit	Total revenues
31 Dec 2020						
Prvi Faktor Group	50	7,175	2,487	4,688	(485)	587
31 Dec 2019						
Prvi Faktor Group	50	8,226	2,978	5,248	(365)	1,709

2.4.7 Property, plant and equipment and intangible assets

Changes in property, plant and equipment and intangible assets

2020	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	10,095	1,173	948	12,216	3,545
Increase	0	615	73	688	708
Decrease	(103)	(412)	(65)	(580)	(354)
Balance as at 31 Dec	9,992	1,376	956	12,324	3,899
Accumulated depreciation and amortisation					
Balance as at 1 Jan	(6,013)	(1,009)	(576)	(7,598)	(2,565)
Depreciation and amortisation	(340)	(222)	(66)	(628)	(342)
Decrease	103	106	29	238	0
Balance as at 31 Dec	(6,250)	(1,125)	(613)	(7,988)	(2,907)
Carrying amount as at 31 Dec	**3,742**	**251**	**343**	**4,336**	**992**

2019	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets
Cost					
Balance as at 1 Jan	10,095	1,103	852	12,050	3,251
Increase	0	208	357	565	311
Decrease	0	(138)	(261)	(399)	(17)
Balance as at 31 Dec	10,095	1,173	948	12,216	3,545
Accumulated depreciation and amortisation					
Balance as at 1 Jan	(5,672)	(845)	(611)	(7,128)	(2,252)
Depreciation and amortisation	(341)	(198)	(47)	(586)	(328)
Decrease	0	34	82	116	15
Balance as at 31 Dec	(6,013)	(1,009)	(576)	(7,598)	(2,565)
Carrying amount as at 31 Dec	**4,082**	**164**	**372**	**4,618**	**980**

SID Bank had no pledged fixed assets or assets acquired on the basis of leases as at 31 December 2020.

2.4.8 Tax assets and liabilities

	31 Dec 2020	31 Dec 2019
Current tax assets	2,423	18
Deferred tax assets	0	450
Total tax assets	**2,423**	**468**
Current tax liabilities	453	451
Deferred tax liabilities	249	0
Total tax liabilities	**702**	**451**

Current tax assets in the amount of EUR 2,423 thousand (31 December 2019: EUR 18 thousand) comprise the Bank's claims against the FURS from overpaid corporate income tax for 2020.

Breakdown by type of deferred tax

	31 Dec 2020	31 Dec 2019
Deferred tax assets		
Impairment of equity investments	2,967	2,967
Provisions for pensions and jubilee benefits	148	91
Valuation of financial assets measured at fair value through other comprehensive income	18,076	5,688
Depreciation and amortisation	81	67
Total deferred tax assets	**21,272**	**8,813**
Deferred tax liabilities		
Valuation of financial assets measured at fair value through other comprehensive income	21,521	8,363
Total deferred tax liabilities	**21,521**	**8,363**
Net deferred taxes	**(249)**	**450**

	2020	2019
Included in income statement	**183**	**36**
Financial assets measured at fair value through other comprehensive income	112	10
Provisions for pensions and jubilee benefits	57	13
Depreciation and amortisation	14	13
Included in statement of comprehensive income	**(882)**	**(2,061)**
Cash flow hedge	0	(407)
Revaluation of financial assets measured at fair value through other comprehensive income	(882)	(1,654)

SID Bank had no unrecognised deferred taxes as at 31 December 2020.

2.4.9 Other assets

	31 Dec 2020	31 Dec 2019
Tax assets	4	23
Receivables for advances	9	9
Prepayments	344	279
Accrued income	856	153
Other prepayments and accrued income	1	0
Gross exposure	1,214	464
Net exposure	**1,214**	**464**

2.4.10 Financial liabilities measured at amortised cost

	31 Dec 2020	31 Dec 2019
Deposits and loans from banks and central banks	909,970	777,912
Loans and advances	908,711	768,968
Deposits	1,259	8,944
Deposits and loans from customers	832,377	827,545
Loans and advances	832,377	827,545
Debt securities	679,327	330,279
Other financial liabilities	2,879	2,727
Total	**2,424,553**	**1,938,463**

Deposits and loans from banks and central banks increased primarily due to the raised long-term loan from primary issue by the central bank.

The increase in financial liabilities from debt securities in 2020 is the result of the issue of the SEDABI 0.125 07/08/25 bond with a nominal value of EUR 350,000 thousand.

2.4.11 Provisions

Breakdown by type of provision

	31 Dec 2020	31 Dec 2019
Provisions for commitments given	3,191	1,532
Guarantees	255	364
Undrawn loans	2,936	1,168
Provisions for employee benefits	1,444	842
Total	**4,635**	**2,374**

Provisions for employee benefits comprise provisions for jubilee benefits and provisions for termination benefits at retirement.

Changes in provisions for commitments given

2020	Guarantees Stage 1	Guarantees Stage 2	Guarantees Total	Undrawn loans Stage 1	Undrawn loans Stage 2	Undrawn loans Total
Balance as at 1 Jan	364	0	364	548	620	1,168
Transfer from Stage 1 to Stage 2	0	0	0	(429)	429	0
Transfer from Stage 2 to Stage 1	0	0	0	637	(637)	0
Increase due to additional commitments given	121	21	142	1,039	288	1,327
Decrease due to a reduction in commitments given	(108)	0	(108)	(1,468)	(516)	(1,984)
Net change due to change in credit risk	(143)	0	(143)	552	1,873	2,425
Balance as at 31 Dec	**234**	**21**	**255**	**879**	**2,057**	**2,936**

2019	Guarantees Stage 1	Guarantees Total	Undrawn loans Stage 1	Undrawn loans Stage 2	Undrawn loans Total
Balance as at 1 Jan	214	214	206	0	206
Increase due to additional commitments given	0	0	560	75	635
Decrease due to a reduction in commitments given	(16)	(16)	(237)	(17)	(254)
Net change due to change in credit risk	166	166	19	562	581
Balance as at 31 Dec	**364**	**364**	**548**	**620**	**1,168**

Changes in provisions for employee benefits

	2020	2019
Balance as at 1 Jan	842	710
Created	623	138
Used	(21)	(6)
Balance as at 31 Dec	**1,444**	**842**

Provisions for termination benefits at retirement and jubilee benefits as at 31 December 2020 were created on the basis of SID Bank's own calculation. The Bank had 223 employees as at 31 December 2020 (31 December 2019: 201). The calculation is based on the assumption that all employees on permanent contracts included in the calculation will remain employed at the Bank until the payment of all pertaining jubilee benefits and until retirement. The calculated amounts are discounted using a discount rate of 1.0071 (31 December 2019: 1.0105).

The reason for this increase in provisions in 2020 is primarily attributed to a change in the basis for the calculation of provisions for termination benefits at retirement, in which the Bank included three employee wages in 2020, while only two wages had been included in previous years. The balance of provisions increased by EUR 448 thousand in that regard.

2.4.12 Other liabilities

	31 Dec 2020	31 Dec 2019
Current deferred income	154	119
Tax liabilities	120	56
Total	**274**	**175**

2.4.13 Shareholder equity

	31 Dec 2020	31 Dec 2019
Share capital	300,000	300,000
Profit reserves	156,846	135,327
Regulatory reserves	14,445	14,020
Reserves for treasury shares	1,324	1,324
Reserves under articles of association	69,364	65,332
Other profit reserves	71,713	54,651
Share premium	1,139	1,139
Accumulated other comprehensive income	15,413	11,656
Treasury shares	(1,324)	(1,324)
Net profit for financial year (including retained earnings)	4,033	17,062
Total	**476,107**	**463,860**

There were no changes to the treasury shares reserve in 2020. SID Bank held 18,445 own shares, ticker symbol SIDR, in the total amount of EUR 1,324 thousand as at 31 December 2020.

Under a general meeting resolution, the undistributed profit for 2019 in the amount of EUR 17,062 thousand was allocated to other profit reserves.

The changes are disclosed in the statement of changes in equity.

Breakdown of accumulated other comprehensive income

	31 Dec 2020	31 Dec 2019
Financial assets measured at fair value through other comprehensive income – equity instruments	439	445
Revaluation	542	550
Deferred taxes	(103)	(105)
Financial assets measured at fair value through other comprehensive income – debt securities	14,974	11,211
Revaluation	18,486	13,840
Deferred taxes	(3,512)	(2,629)
Total	**15,413**	**11,656**

2.4.14 Distributable profit

	31 Dec 2020	31 Dec 2019
Net profit for financial year	8,490	32,040
Increase in profit reserves		
Regulatory reserves	(424)	(1,602)
Reserves under articles of association	(4,033)	(15,219)
Transfer of fair value reserves on derecognition of investments in equity financial instruments measured at fair value through other comprehensive income	0	1,843
Distributable profit	**4,033**	**17,062**

In accordance with the articles of association, the management board used SID Bank's net profit for 2020 in the amount of EUR 8,490 thousand (2019: EUR 32,040 thousand) to create regulatory reserves in the amount of EUR 424 thousand (2019: EUR 1.602 thousand) and reserves under the articles of association in the amount of EUR 4,033 thousand (2019: EUR 15,219 thousand). The distributable profit from 2019 in the amount of EUR 17,062 thousand was allocated to other profit reserves.

Under the ZSIRB, SID Bank's distributable profit may not be used for distribution to shareholders. The Bank's management board and the supervisory board will propose to the general meeting that it pass a resolution whereby the distributable profit for the 2020 financial year in the amount of EUR 4,033 thousand should be allocated to other profit reserves.

2.5 Notes to the income statement

2.5.1 Net interest income

	2020	2019
Interest income		
Income from financial assets measured at amortised cost and fair value through other comprehensive income	27,821	29,071
Financial assets measured at fair value through other comprehensive income	3,667	4,559
Financial assets measured at amortised cost	21,910	23,790
Loans and advances to banks	6,394	6,225
Loans and advances to customers	15,516	17,565
Interest on financial liabilities carrying negative interest rate	2,244	722
Other interest income	739	1,842
Non-trading financial assets mandatorily at fair value through profit or loss	474	1,842
Hedging derivatives	265	0
Total interest income	28,560	30,913
Interest expenses		
Financial liabilities held for trading	0	(90)
Financial liabilities measured at amortised cost	(3,366)	(5,705)
Loans and deposits to banks	(642)	(962)
Loans and deposits to customers	(876)	(3,362)
Debt securities issued	(1,848)	(1,381)
Hedging derivatives	(454)	(594)
Interest on financial assets carrying negative interest rate	(1,547)	(592)
Total interest expenses	(5,367)	(6,981)
Net interest income	**23,193**	**23,932**

SID Bank generated interest income of EUR 28,560 thousand in 2020, a decrease of 7.62% relative to 2019.

Due to a change to the Bank of Slovenia's implementing regulations, which set out the treatment and reporting on interest on Stage 3 financial assets and the resulting interest on non-performing financial assets measured at fair value through profit or loss, the Bank transitioned to a new method for disclosing interest in 2020.

The transition to the new interest disclosure method in 2020 caused a decline of EUR 152 thousand in interest income from financial assets measured at amortised cost, and also an increase in income from the reversal of impairments in the same amount, and a decline of EUR 913 thousand in interest income from financial assets measured at fair value through profit or loss and an increase in net gains on non-trading financial assets mandatorily at fair value through profit or loss in the same amount.

2.5.2 Dividend income

	2020	2019
Non-trading financial assets mandatorily at fair value through profit or loss	316	0
Financial assets measured at fair value through other comprehensive income	0	35
Investments held at end of reporting period	0	35
Investments in subsidiaries, associates and joint ventures	0	5,418
Total	**316**	**5,453**

The Bank received dividends in the amount of EUR 316 thousand in 2020 from investments in the scope of the SEGIP programme.

2.5.3 Net fee and commission income

	2020	2019
Fee and commission income		
Fee and commission income from loan operations	496	495
Fee and commission income from guarantees given	246	238
Total fee and commission income	742	733
Fee and commission expenses		
Fees and commission for loan operations	(11)	(12)
Fees and commission for stock exchange transactions	(240)	(337)
Fees and commission for other services	(198)	(184)
Total fee and commission expenses	(449)	(533)
Net fee and commission income	**293**	**200**

2.5.4 Net gains/losses on financial assets and liabilities not measured at fair value through profit or loss

	2020	2019
Financial assets measured at fair value through other comprehensive income	2,060	2,602
Gains	2,070	2,657
Losses	(10)	(55)
Financial assets measured at amortised cost	2	130
Gains	2	130
Financial liabilities measured at amortised cost	20,900	10,043
Gains	20,979	10,043
Losses	(79)	0
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	**22,962**	**12,775**

Within the framework of its business for its own account, SID Bank manages four loan funds set up in conjunction with the MEDT. A first loss clause was contractually agreed with the MEDT for all four funds, i.e. any loss on the part of the funds is first covered by the priority participation of the MEDT in loan fund risks by reducing the liabilities to the MEDT and recognising gains on financial assets and liabilities measured at amortised cost. If the loan funds operate profitably over the subsequent periods, the liability owed to the MEDT is increased, and losses are recognised under financial assets and liabilities measured at amortised cost.

Considering the relatively high risk of investments from the loan funds and the consequently high percentages of impairments on such loans, lending activity has a substantial impact on the performance of the loan funds. In periods of high rates of lending, impairments and provisions are high, leading to a large loss on the part of the funds, and vice-versa in periods when loans are repaid and impairments are released, which is reflected in relatively high gains on the part of the loan funds.

Lending from the loan funds in 2020 was up relative to 2019, while created impairments were higher resulting in a loss in the amount of EUR 20,824 thousand (2019: EUR 10,010 thousand), which because of the agreed first loss clause was reflected in recognised gains on financial liabilities measured at amortised cost.

The Bank recognised gains of EUR 76 thousand in 2020 in the same item (2019: EUR 33 thousand) as the result of financial liabilities measured at amortised cost deriving from the direct provision of financial instruments of the Fund of Funds.

2.5.5 Net gains/losses on non-trading financial assets mandatorily at fair value through profit or loss

	2020	2019
Equities	(717)	389
Gains	2,026	422
Losses	(2,743)	(33)
Loans and other financial assets	9,427	12,315
Gains	12,554	13,299
Losses	(3,127)	(984)
Net gains/(losses) on non-trading financial assets mandatorily at fair value through profit or loss	**8,710**	**12,704**

2.5.6 Changes in fair value in hedge accounting

	2020	2019
Net gains/(losses) on derivatives held as fair value hedges	925	(503)
Net gains/(losses) on fair-value-hedged items relating to hedged risk	(799)	493
Losses on ineffective cash flow hedges	0	(1,115)
Total gains/(losses) from hedge accounting	**126**	**(1,125)**

All fair value hedges in 2020 were effective, so the Bank did not discontinue the hedge accounting. Based on prospective and retrospective testing, it was determined that the hedging relationship became ineffective in 2019 due to a material change in the median value of the interest rate swap concluded for cash flow hedges, requiring its discontinuation.

2.5.7 Net foreign exchange gains/losses

	2020	2019
Net foreign exchange gains	2,013	1,813
Net foreign exchange losses	(1,996)	(1,822)
Net foreign exchange gains/(losses)	**17**	**(9)**

The exchange rate differences disclosed in the above table relate to financial liabilities and financial assets measured at amortised cost and current accounts at banks in the country in foreign currency.

2.5.8 Other net operating income/expenses

	2020	2019
Income		
Income from activities under Republic of Slovenia authorisation	2,941	2,504
Other operating income	924	278
Total income	3,865	2,782
Expenses		
Other operating expenses	(14)	(25)
Total expenses	(14)	(25)
Net operating income /(expenses)	**3,851**	**2,757**

The Bank realised income of EUR 2,941 thousand in 2020 (2019: EUR 2,504 thousand) from the provision of services under authorisation. It recorded income from the management of contingency reserve assets in the amount of EUR 1,740 thousand (2019: EUR 1,740 thousand), from the management of the Fund of Funds in the amount of EUR 778 thousand (2019: EUR 729 thousand), from guarantee schemes in the amount of EUR 9 thousand (2019: EUR 14 thousand), from government guarantee schemes in accordance with the Act Determining Emergency Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy, and the Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Epidemic, adopted in April 2020, EUR 387 thousand and from other operations under authorisation in the amount of EUR 27 thousand (2019: EUR 21 thousand).

2.5.9 Administrative expenses

	2020	2019
Labour costs	(13,184)	(11,540)
Gross salaries	(9,834)	(8,520)
Pension insurance costs	(846)	(760)
Social security costs	(746)	(630)
Other labour costs	(1,758)	(1,630)
General and administrative costs	(4,158)	(4,291)
Costs of material	(165)	(153)
Costs of services	(3,665)	(3,869)
Taxes and membership fees	(328)	(269)
Total	**(17,342)**	**(15,831)**

Total amount spent on auditors

	2020	2019
Auditing of the annual report	47	47
Other auditing services	79	15
Other non-audit services	22	49
Total	**148**	**111**

2.5.10 Depreciation and amortisation

	2020	2019
Depreciation of property, plant and equipment	(628)	(586)
Amortisation of intangible assets	(342)	(328)
Total	**(970)**	**(914)**

2.5.11 Net modification gains/losses

	2020	2019
Gains on modification of financial assets measured at amortised cost	39	0
Losses on modification of financial assets measured at amortised cost	(612)	(65)
Net gains/(losses) on modification of financial assets	**(573)**	**(65)**

2.5.12 Provisions

	2020	2019
Provisions for commitments given	(1,659)	(1,112)
Guarantees	109	(150)
Undrawn loans	(1,768)	(962)
Other provisions	(623)	(139)
Total	**(2,282)**	**(1,251)**

The stocks of off-balance-sheet liabilities for which the provisions have been created are disclosed in the table in section 2.6.1.

Other provisions include provisions for termination benefits at retirement and jubilee benefits. The reason for higher expenses from other provisions in 2020 is explained in section 2.4.11.

2.5.13 Impairments

	2020	2019
Impairments of financial assets measured at fair value through other comprehensive income	(587)	(54)
Impairments of financial assets measured at amortised cost	(27,252)	(10,437)
Loans and advances to banks	(1,340)	(714)
Loans and advances to customers	(25,903)	(9,723)
Other financial assets	(9)	0
Total	**(27,839)**	**(10,491)**

2.5.14 Corporate income tax

	2020	2019
Current income tax	(2,155)	(5,234)
Deferred taxes	183	36
Total	**(1,972)**	**(5,198)**

The corporate income tax rate in Slovenia was 19% in 2020 (2019: 19%). Current income tax differs from tax calculated using the prescribed tax rate, and is disclosed in the table below. An analysis of deferred taxes disclosed in profit or loss is given in section 2.4.8.

	2020	2019
Profit before tax	10,462	37,238
Tax calculated at prescribed rate of 19%	(1,988)	(7,075)
Non-taxable income	48	2,012
Non-deductible expenses	(359)	(187)
Reduction in tax base for expenses that were not recognised for tax purposes in the past	3	2
Increase in tax base	0	(99)
Tax allowances	141	113
Net created/(used) deferred taxes	183	36
Total	**(1,972)**	**(5,198)**

Non-deductible expenses largely derived from expenses for bonuses and other employment-related payments and from the revaluation of debt investments measured at fair value through other comprehensive income.

SID Bank's effective tax base (calculated as the ratio of expenses for corporate income tax to profit before tax) for the 2020 financial year was 20.6% (2019: 14.1%).

2.5.15 Basic and diluted earnings per share

	2020	2019
Number of ordinary registered no-par value shares	3,121,741	3,121,741
Treasury shares	18,445	18,445
Number of ordinary shares (excluding treasury shares)	3,103,296	3,103,296
Net profit for the financial year (in EUR thousands)	8,490	32,040
Basic earnings per share (in EUR per share)	**2.74**	**10.32**

Diluted earnings per share equals basic earnings per share.

2.6 Other notes to the financial statements

2.6.1 Contingent liabilities and commitments given

Contractual value of off-balance-sheet financial instruments arising from commitments given

	31 Dec 2020	31 Dec 2019
Commitments given		
Guarantees	71,363	63,824
Undrawn loans	172,343	183,865
Uncalled unpaid capital	26,934	12,000
Total	**270,640**	**259,689**
Provisions for commitments given		
Guarantees	(255)	(364)
Undrawn loans	(2,936)	(1,168)
Total	**(3,191)**	**(1,532)**

The value of guarantees given increased in 2020 as a result of the introduction of portfolio guarantees, i.e. a new guarantee instrument in the scope of the Fund of Funds, which chosen commercial banks and savings banks can utilise when financing businesses for investments and the current operations of sole traders, micro and small and medium-sized enterprises – MSMEs). The amount of undrawn loans approved for customers stood at EUR 155,801 thousand as at 31 December 2020 (2019: EUR 167,313 thousand), while the amount of loans approved for banks stood at EUR 16,542 thousand (2019: EUR 16,552 thousand). The increase in uncalled unpaid capital in 2020 was the result of SID Bank's commitment for an additional contribution into the Three Seas Initiative Investment Fund.

Changes in contractual value of off-balance-sheet financial instruments arising from commitments given

	Guarantees			Undrawn loans				Uncalled unpaid capital
2020	Stage 1	Stage 2	Total	Stage 1	Stage 2	Stage 3	Total	
Balance as at 1 Jan	63,824	0	63,824	171,664	12,202	0	183,866	12,000
Transfer from Stage 1 to Stage 2	(1,500)	1,500	0	(25,996)	25,996	0	0	0
Transfer from Stage 2 to Stage 1	0	0	0	11,649	(11,649)	0	0	0
Increase in commitments given	14,775	0	14,775	538,143	0	10,000	548,143	23,000
Decrease in commitments given	(7,236)	0	(7,236)	(544,039)	(5,627)	(10,000)	(559,666)	(8,066)
Balance as at 31 Dec	**69,863**	**1,500**	**71,363**	**151,421**	**20,922**	**0**	**172,343**	**26,934**

	Guarantees		Undrawn loans			Uncalled unpaid capital
2019	Stage 1	Total	Stage 1	Stage 2	Total	
Balance as at 1 Jan	66,790	66,790	195,972	998	196,970	12,000
Increase in commitments given	0	0	164,816	14,449	179,265	0
Decrease in commitments given	(2,966)	(2,966)	(189,124)	(3,246)	(192,370)	0
Balance as at 31 Dec	**63,824**	**63,824**	**171,664**	**12,201**	**183,865**	**12,000**

Contractual value of derivatives

	31 Dec 2020	31 Dec 2019
Hedging derivatives		
Interest rate swaps	190,000	15,000
Total	**190,000**	**15,000**

The contractual value of hedging derivatives amounted to EUR 190,000 thousand. Derivatives that meet the criteria for hedge accounting are used to hedge against interest rate risk. As at 31 December 2020, the Bank had concluded no derivatives held for trading. The fair values and economic effects are disclosed in sections 2.4.5 and 2.5.6.

2.6.2 Related party disclosures

Within the framework of continuing operations, certain banking transactions were conducted with related parties, i.e. parties where one party controls the other or has a significant influence over its financial and business decisions. Major transactions between SID Bank and related parties are disclosed below.

Significant relations of SID Bank with joint ventures

	31 Dec 2020 Joint ventures	31 Dec 2019 Joint ventures
Receivables		
Loans and advances	484	483
Gross exposure	484	483
Loss allowances	(135)	119
Net exposure	**349**	**602**

	2020 Joint ventures	2019 Joint ventures
Interest income	5	28
Interest expenses	(56)	0
Impairments	(13)	341
Total	**(64)**	**369**

Exposure to the Republic of Slovenia and to government-owned undertakings

SID Bank has business relationships with the government and with government-related undertakings or undertakings with a significant government influence.

Exposure to:	2020	2019
Bank of Slovenia		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and other demand deposits at banks	119,303	72,689
LIABILITIES		
Loans from banks and central banks	342,846	171,201
Other financial liabilities	234	195
For period		
Interest expenses	(3,262)	(1,193)
Republic of Slovenia		
Balance as at 31 Dec		
ASSETS		
Financial assets measured at fair value through other comprehensive income	360,983	327,571
Loans and advances to customers	162,304	118,630
Other financial assets	639	399
Tax assets	2,423	468
Other assets	420	49
LIABILITIES		
Loans from customers	185,759	174,323
Other financial liabilities	474	421
Provisions	2	1
Tax liabilities	702	451
Other liabilities	120	58
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	29,764	27,208
For period		
Interest income	8,314	3,999
Fee and commission income	2	1
Fee and commission expenses	(1)	0

Exposure to:	2020	2019
Net gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	21,849	10,742
Changes in fair value in hedge accounting	238	493
Other net operating income/(expenses)	2,159	1,790
Administrative expenses	(260)	(56)
Net gains/(losses) on change in repayment terms for financial assets	2	0
Impairments and provisions	18	7
Government-owned undertakings		
Balance as at 31 Dec		
ASSETS		
Cash, cash balances at central banks and other demand deposits at banks	0	26
Financial assets measured at fair value through other comprehensive income	24,248	18,383
Loans and advances to banks	125,797	270,649
Loans and advances to customers	271,584	239,784
Other financial assets	0	343
Other assets	27	27
LIABILITIES		
Other financial liabilities	78	205
Provisions	33	22
CONTINGENT LIABILITIES AND COMMITMENTS GIVEN	22,087	20,000
For period		
Interest income	4,632	7,243
Interest expenses	0	(12)
Dividend income	0	19
Fee and commission income	144	0
Fee and commission expenses	0	(125)
Other net operating income/(expenses)	1,235	800
Administrative expenses	(350)	(221)
Net gains/(losses) on change in repayment terms for financial assets	(197)	(48)
Impairments and provisions	(505)	2,233

2.6.3 Remuneration system

SID Bank's remuneration policy is consistently aimed at meeting the objectives of its business strategy, and is aligned with its risk profile and risk absorption capacity.

The size and organisational structure of the Bank as well as the nature, scale and complexity of the activities pursued by SID Bank are taken into account in the remuneration policy. In accordance with the ZSIRB, SID Bank's objective is not maximising profit, but primarily conserving capital, whereby all SID Bank's transactions are subject to the assessment of economic quality on the basis of international criteria. Moreover, the remuneration policy takes account of the fact that SID Bank, unlike other commercial banks, provides only specific services and transactions (financing of corporates and banks), i.e. it does not provide the majority of services provided by other banks (SID Bank does not take deposits from the public, does not provide retail services, does not manage current accounts for clients, does not provide payment services for clients, and does not provide investment services for clients), and that due to the specific business model typical of development banks, SID Bank may be classified in the category of banks carrying out activities with a relatively low complexity of risks.

In accordance with Commission Delegated Regulation (EU) No 604/2014, Regulation (EU) No 575/2013 and Article 169 of the ZBan-2, the remuneration policy specifically defines the material business units and the specific jobs of employees who, on the basis of their powers or duties and activities or on the basis of their membership in committees may have a material impact on the Bank's risk profile.

The remuneration policy specifies that employee remuneration should be formulated so that it does not encourage employees whose professional activities have a material impact on the Bank's risk profile to irresponsibly take disproportionately large risks in the course of their work, or risks that exceed the Bank's risk absorption capacity.

The remuneration of employees in independent control functions is determined so that their independence and objectivity in the performance of duties are not compromised. Employees who perform independent control functions are independent from the organisational units over which they conduct controls, and have the appropriate powers and receive remuneration with respect to the achievement of objectives linked to their functions, irrespective of the performance of the business areas over which they conduct controls. Employees who perform independent control functions receive performance bonuses irrespective of the policy in accordance with the company-level collective agreement.

(Article 450(1)(a) of the CRR)

SID Bank's back-office departments (risk management, compliance, internal audit, accounting, and general secretariat), its management board, its supervisory board committees (risk committee, nomination and remuneration committee) are involved in the process of putting in place, implementing and conducting controls on the remuneration policy, together with the supervisory board, which adopts the remuneration policy.

The nomination and remuneration committee held ten sessions in 2020, and discussed the remuneration policy and practices at four of the sessions. The remuneration policy was amended once in 2020. The basis for change were recommendations from the review of the compliance department associated with the deferred amount of variable remuneration.

No external consultant was involved in the development of the remuneration policy.

(Article 450(1)(b) of the CRR)

In the event of unsatisfactory performance or a negative operating result, SID Bank considerably reduces the variable remuneration (including the possibility of reducing such remuneration to zero or to the lower threshold set out in the collective agreement for the sector), whereby both current remuneration and reductions in payments of previously earned amounts are taken into account, including through malus or clawback arrangements in accordance with the law governing employment relationships and the collective agreement for the sector.

(Article 450(1)(c) of the CRR)

Fixed remuneration is above all an appropriate reflection of a person's professional experience and responsibilities at the Bank, as defined in the description of the employee's work tasks as part of the terms and conditions of employment. Variable remuneration reflects sustainable and risk-adjusted performance, and performance that exceeds the expected performance as defined in the description of the employee's work tasks as part of the terms and conditions of employment. The entire variable component of an employee's remuneration is determined on the basis of the performance of the employee, the employee's organisational unit and the Bank's overall operating results.

Performance bonuses for all categories of employees are paid after the approval of the annual report by the supervisory board. Performance bonuses are not paid if the Bank fails to generate any profits in the financial year. In the event of any recommendations from the Bank's shareholders or any other persons responsible for such recommendations relating to restrictions regarding performance bonuses or other remuneration arising from employment, the management board may make a decision contrary to the provisions of the company-level collective agreement. In that regard, on the basis of the Bank of Slovenia's Regulation on the macroprudential restriction on profit distribution by banks (Official Gazette of the Republic of Slovenia, No. 49/20), SID Bank made no performance-related payments in 2020 to those employees to whom the Bank of Slovenia's regulation relates.

The provisions concerning performance bonuses do not apply if variable remuneration is required to be reduced in accordance with the provisions of SID Bank's remuneration policy, in particular the provisions on the observation of the impact of variable remuneration on SID Bank's financial position and the provisions on performance measurement and risk adjustment.

The accounting period is the calendar year. The deferral period for variable remuneration begins after the end of the accounting period and for employees whose professional activities have a material impact on the Bank's risk profile and if total variable remuneration of an employee in a single year exceeds the gross amount of EUR 50,000. In accordance with the remuneration policy, the aforementioned deferral period lasts for five years for senior management and three years for other employees, in the deferred amount of 40% of the variable remuneration. As regards the payment and deferral of the variable remuneration of the president and other members of the management board, the provisions of the ZPPOGD and the remuneration policy apply, and specify that the deferral period is three years and the deferred proportion of the variable remuneration is 50%, while for a variable remuneration amount that exceeds EUR 50,000 the deferral period is five years.

(Article 450(1)(d) of the CRR)

Under the remuneration policy, the fixed portion of remuneration accounts for at least 75% of the average employee's total remuneration for all types of employees. The remuneration policy provides that the variable component of remuneration includes any payment for performance over the percentage from the collective agreement for Slovenia's banking sector, performance bonuses, other bonuses (e.g. for project work), and other remuneration and benefits (e.g. termination benefits above the amount set by labour regulations).

The requirements referred to in points 7 and 8 of the first paragraph of Article 170 of the ZBan-2 concerning the formulation and payment of variable remuneration do not apply when the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile does not exceed EUR 50,000 gross in a single year (application of the lower threshold of variable remuneration).

(Article 450(1)(e) of the CRR)

Given that the ZSIRB stipulates that SID Bank may have only one shareholder and that the Republic of Slovenia guarantees the commitments of the Bank, SID Bank explains, with respect to the performance criteria on which the right to shares is based, that it cannot and may not pay the variable component of remuneration in the form of shares. This means that in cases where the total variable remuneration of an employee whose professional activities have a material impact on the Bank's risk profile exceeds EUR 50,000 gross in a single year, SID Bank may take into account only to a limited extent the principles laid down in section 7 of the first paragraph of Article 170 of the Banking Act (ZBan-2), which require at least 50% of the variable remuneration of every individual to be provided in the form of ordinary and preference shares of the bank, or share-linked instruments or equivalent non-cash instruments when a bank's shares are not listed on a regulated market. If an employee whose professional activities have a material impact on the Bank's risk profile is entitled to variable remuneration based on the relevant criteria and their total variable remuneration exceeds the gross amount of EUR 50,000 in a given year, the amount above that figure is indexed to the growth in the book value of SID Bank's shares until the payment date, notwithstanding any transactions with the owner (e.g. capital increase/decrease, pooling/splitting of shares).

SID Bank provides information regarding the performance criteria that serve as the basis for the right to variable remuneration in the next section, together with the main parameters and justifications for the aforementioned variable remuneration and other non-cash benefits.

(Article 450(1)(f) of the CRR)

Variable remuneration of employees

1. The variable remuneration of any employees having an employment contract signed in accordance with the provisions of the collective agreement for the Slovenian banking sector and the company-level collective agreement is paid as a payment for performance over the percentage from the collective agreement for the banking sector, performance bonuses, other bonuses (e.g. for project work) or termination benefits pay above the amount set by labour regulations.

Employee performance is monitored and assessed once a year by their immediate superiors on the basis of the execution of their duties specified in respective annual development interviews based on the tasks set out in the annual operational plan (AOP), and based on the achievement of the criteria of scale and quality of work, efficiency, attitude towards other staff members and customers, diligence, willingness to work and development of competencies. In accordance with the tariff annex to the company-level collective agreement, the funds earmarked for the payment of on-the-job performance bonuses are equivalent to 10% of the funds earmarked for the payment of employees' base monthly salaries under the collective agreement.

In accordance with the criteria of the tariff annex to the company-level collective agreement, an employee is entitled to the payment of a performance bonus in the amount of one average gross monthly salary. The payment of that performance bonus depends on the achievement of indicators used to control the strategic results defined in the Bank's development plan (maximum of 60% of salary) and the achievement of key performance indicators and the tasks implemented by a specific organisational unit (maximum of 40% of salary). The total variable remuneration of employees may not exceed 33% of the fixed remuneration.

Bonuses for project work are defined in accordance with the rulebook on project work.

Based on a reasoned proposal, the management board may adopt a decision, where an employee is only entitled to termination benefits up to a certain amount above the amount set out in labour legislation.

2. Employees with individual employment contracts are paid variable remuneration once a year in the form of performance bonuses based on the achievement of objectives, tasks and obligations determined by a decision adopted by the management board every year and/or the business policy of the department/departments and/or the objectives and tasks of the director as well as other tasks according to the decision of the management board. Alternatively, the variable remuneration is paid taking into account the assessment of the work of the management board by SID Bank's supervisory board. The various aspects listed in point 1 above are taken into account as criteria for all employees or as criteria that also apply to SID Bank's management board. The provisions of the individual contracts generally limit performance bonuses to 25% of the base annual salary.

3. The provisions of the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD) also apply to the performance criteria (based on which variable remuneration is determined) for members of SID Bank's management board. The variable remuneration, which may not exceed 30% of the base salary of any member of the management board, is determined by the supervisory board at the proposal of the nomination and remuneration committee, following the approval of SID Bank's annual report, taking into account the fulfilment of SID Bank's AOP and other performance measurement criteria. The fulfilment of the AOP provides a basis for the payment of the entire variable remuneration, while in the event of (a) partial fulfilment of the AOP or (b) if certain objectives have been exceeded and others have not been met, the supervisory board takes a decision on the amount of the variable remuneration by taking into account the criterion concerning the fulfilment of objectives/tasks in comparison with all tasks, as well as quantitative and qualitative criteria set out in the AOP and their weight in accordance with the provisions of the articles of association and the adopted strategy defining the purpose

and mission of the company and the various circumstances in which the company operated in the previous year.

Other non-cash benefits received by any employees whose professional activities have a material impact on the Bank's risk profile relate to the benefits agreed in the employment contract (e.g. life insurance, company car use for business and private purposes), for which fringe benefits are accounted for by SID Bank.

(Article 450(1)(g)(h)(i) and (j) of the CRR)

Quantitative information on remuneration in 2020

	Management body in supervisory function	Management body in management function	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	Other
Members (number of employees)	7	2.0	N/A	N/A	N/A	N/A	N/A	N/A
Number of identified FTE employees	N/A	N/A	0	6.0	5.7	10.9	6.0	8.5
Number of identified employees in senior management positions	N/A	N/A	0	0	0	5.0	0	0
Total fixed remuneration, EUR	186,855	465,282	0	432,557	295,267	1,026,898	396,423	602,988
of which: fixed remuneration in cash	186,855	465,282	0	432,557	295,267	1,026,898	396,423	602,988
Total variable remuneration, EUR	0	0	0	46,186	19,935	61,105	40,053	73,078
of which: variable remuneration in cash	0	0	0	46,186	19,935	61,105	40,053	73,078
Total amount of variable remuneration awarded in 2020 and deferred, EUR	0	114,057	0	10,014	0	131,161	0	0
of which: deferred variable remuneration in 2020 in cash	0	114,057	0	10,014	0	131,161	0	0
- vested portion	0	57,029	0	10,014	0	131,161	0	0
- unvested portion	0	57,028	0	0	0	0	0	0
Total amount of outstanding deferred variable remuneration awarded in previous periods and not in 2020, EUR (Article 450(1)(h)(iii) of the CRR)	0	149,479	0	0	0	0	0	0
- vested portion	0	47,683	0	0	0	0	0	0
- unvested portion	0	101,796	0	0	0	0	0	0

All variable remuneration was paid in cash; there are no other types of variable remuneration. Vested portions of deferred variable remuneration were not paid in 2020 in accordance with the Regulation on the macroprudential restriction on profit distribution by banks. No single person was remunerated more than EUR 1 million.

Remuneration of members of supervisory bodies in 2020

(EUR) Name	Function	Gross payment for performance of function	Gross session fees	Gross total	Net total	Gross reimbursement of expenses	Net reimbursement of expenses	Other benefits (liability insurance)
Monika Pintar Mesarič	chair of supervisory board until 10 Sep 2020 chair of nomination and remuneration committee until 10 Sep 2020	17,422	3,481	20,903	15,159	0	0	163
Marjan Divjak	member of supervisory board, chair of supervisory board since 15 Sep 2020 member of risk committee, deputy-chair of risk committee until 14 Sep 2020 member of nomination and remuneration committee since 15 Sep 2020 deputy-chair of audit committee until 14 Sep 2020	23,021	9,248	32,269	23,425	0	0	163
Leo Knez	member of supervisory board chair of risk committee until 14 Sep 2020, deputy-chair of risk committee since 15 Sep 2020 member of audit committee, chair of audit committee since 15 Sep 2020	22,547	8,632	31,179	22,632	0	0	163
Marko Tišma	deputy-chair of supervisory board until 14 Sep 2020, member of supervisory board deputy-chair of nomination and remuneration committee until 14 Sep 2020 member of risk committee member of audit committee since 15 Sep 2020	22,033	8,524	30,557	22,180	1,355	986	163
Zlatko Vili Hohnjec	member of supervisory board chair of audit committee until 14 Sep 2020, deputy chair of audit committee since 15 Sep 2020 member of nomination and remuneration committee	21,995	9,093	31,088	22,566	1,064	774	163
Anton Rop	member of supervisory board from 27 Jan 2020 to 16 Jun 2020 member of risk committee from 12 Mar 2020 to 16 Jun 2020	5,436	2,725	8,161	5,891	0	0	163
Janez Tomšič	member of supervisory board since 11 Sep 2020, deputy-chair of supervisory board since 15 Sep 2020 deputy-chair of nomination and remuneration committee since 15 Sep 2020	6,129	3,696	9,825	7,146	0	0	0
Igor Masten	member of supervisory board since 11 Sep 2020 member of risk committee since 15 Sep 2020	6,240	3,300	9,540	6,938	0	0	0
Sašo Polanec	member of supervisory board since 11 Sep 2020 chair of the nomination and remuneration committee since 15 Sep 2020	6,240	3,696	9,936	7,226	0	0	0
		131,063	52,395	183,458	133,163	2,419	1,760	978

The costs of education and training of supervisory board members amounted to EUR 3,282 in 2020.

Remuneration of members of the management board in 2020

SID Bank’s management board was paid EUR 465,282 in fixed remuneration in 2020. No variable remuneration was paid to the management board of SID Bank in 2020 in accordance with the Regulation on the macroprudential restriction on profit distribution by banks.

Sibil Svilan, the president of the management board, received EUR 253,403 in fixed remuneration (EUR 109,914 net) in 2020. The fixed remuneration consisted of gross salary in the amount of EUR 240,701 (net salary amounted to EUR 106,645), annual leave allowance in the amount of EUR 1,898, voluntary supplementary pension insurance payments in the amount of EUR 2,819, meal allowances of EUR 1.371 and additional fringe benefits (company car use, voluntary health insurance, accident insurance, life insurance, liability insurance and membership fees) in the total amount of EUR 6,615.

Goran Katušin, a member of the management board, received EUR 211,878 in fixed remuneration (EUR 99,325 net) in 2020. The fixed remuneration consisted of gross salary in the amount of EUR 204,596 (net salary amounted to EUR 95,610), annual leave allowance in the amount of EUR 1,898, voluntary supplementary pension insurance payments in the amount of EUR 2,819, travel and meal allowances and compensation for work from home of EUR 1,817, and additional fringe benefits (voluntary health insurance, accident insurance and liability insurance) in the total amount of EUR 748.

2.6.4 Significant events after the end of the financial year

On the day the financial statements were approved, there was still uncertainty regarding the development of the COVID-19 pandemic, including the duration thereof, the extent of consequences on operations and the pace of economic recovery. For this reason, the extent of the effects of the pandemic on SID Bank’s operations cannot be assessed with a high degree of certainty.

The Bank did not identify any significant business events following the end of the financial year in connection with the COVID-19 pandemic, or any other significant business events that could affect the financial statements or require additional disclosures thereto.

On 12 March 2021 the general meeting of owners of depository receipts of Fortenova Group TopCo B.V. approved the transfer of Sberbank of Russia's 18.53% stake in Poslovni sistem Mercator, d.d. to Fortenova Group TopCo B.V. The general meeting also gave its consent to Fortenova Group TopCo B.V. for the expansion of the existing financial arrangement with HPS Investment Partners LLC and VTB Bank to refinance Poslovni sistem Mercator, d.d.'s debt to banks. On the basis of the available information, the refinancing of the entire debt is expected to be carried out. Loans to Poslovni sistem Mercator, d.d. disclosed in SID Bank’s financial statements represent non-performing non-trading financial assets mandatorily at fair value through profit or loss. If the debt repayment is completed, this will have a positive impact on SID Bank's income statement in 2021.

3 Risk management

Risk management at SID Bank

SID Bank's risk management system is based on an effective risk management process that includes identifying, measuring or assessing, managing and monitoring risks, as well as internal and external risk reporting.

To this end, SID Bank has put in place a risk management strategy that defines the basic principles applying to the take-up and management of SID Bank's risk and establishes a framework and basis for the drawing-up of documents that define in detail the processes of taking up and managing specific types of risks, including the organisational rules applying to the risk management process, the internal control mechanisms, the steps taken to ensure compliance and the public disclosure of information relating to the Bank.

SID Bank's approach to risk management

On the basis of the risk management strategy, SID Bank has developed policies for managing specific types of risk, as well as other bylaws regulating the business processes in which the Bank takes up risks. The policies and other bylaws define the procedures, methods and methodologies used by the Bank in the risk management process for any type of risk.

The risk management strategy aims to put in place an effective risk management process for identifying, measuring or assessing, managing and monitoring risk, including reporting on the risks to which the Bank is or could be exposed in its operations, by providing:
- (internal) definitions of specific types of risk;
- risk absorption capacity;
- risk appetite;
- a risk management action plan, i.e. risk identification, measurement and/or assessment, management and monitoring procedures;
- appropriate internal control mechanisms; and
- internal relations with regard to responsibilities.

The key strategic focuses relating to risk, which pay due regard to the Bank's business model and business strategy, are defined in the risk absorption and risk appetite as presented below as part of the management body's concise statement on SID Bank's approach to the realisation of risk appetite.

Risk absorption capacity means the largest overall risk level that SID Bank is able to take up, having regard for its available capital, liquidity, risk management measures and control environment, stress test results and other restrictions on the take-up of risks.

When assessing its risk absorption capacity, SID Bank takes into account:
- the assessment of the risk profile of SID Bank in the context of which the overall level of risk and the individual types of material risk are comprehensively identified at least once a year;
- the result of the internal capital adequacy assessment process (ICAAP), including the internal assessment of capital requirements and the internal assessment of capital to cover losses in the event of the materialisation of risks taken up, which covers both ordinary SID Bank operations and extraordinary events affecting SID Bank operations;
- the Bank of Slovenia's expectations after each completed supervisory review and evaluation process (SREP) in terms of maintaining the total capital ratio and the proportion of Common Equity Tier 1 capital to cover the recognised assessment of internal capital requirements, both of which are prescribed by the Bank of Slovenia within the context of the SREP;
- the leverage ratio;
- the result of the internal liquidity adequacy assessment process (ILAAP) or liquidity of the Bank with regard to its risk profile;
- the risk management action plan, which sets out the measures available for the management of identified and measured or assessed risks; and
- other restrictions, including any restrictions arising from SID Bank bylaws, from regulations and standards, and from the requirements of the Bank of Slovenia and other competent or supervisory authorities.

SID Bank carries out a comprehensive internal capital adequacy assessment process, tailored to the risks taken up, at least once a year, and reports to the management body, thereby ensuring that the risks taken up remain within the limits of SID Bank's risk absorption capacity. The assessed risk absorption capacity is taken into account when the business strategy is being drafted and the business objectives and risk appetite are being defined.

In accordance with its business strategy, business objectives, risk absorption capacity and risk management strategy, SID Bank takes on risks in its operations within a long-term sustainable target risk profile. It gives priority to the security and stability of its operations to maintain or increase the value of its equity in the long term, maintain the Bank's reputation, and maximise the benefits for users of SID Bank's services and other stakeholders.

SID Bank's risk appetite is defined in the applicable SID Bank development strategy, its annual operational plan and through internally defined limits. SID Bank's risk appetite, taking into account its risk absorption capacity, is assessed by SID Bank once a year, or more frequently in the event of significant changes in risk exposure.

Internal control mechanisms

Internal control mechanisms, the operation of which is put in place for all SID Bank's business processes in proportion to the materiality and risk of an individual business process, include:
- internal controls of the implementation of the Bank's organisational procedures, business procedures and work procedures; and
- internal control functions and services (the internal audit department; the compliance function, including the information security function, which is organised within the compliance department; the risk management function organised within the risk management department) report directly to the Bank's management board.

The purpose of internal controls is to ensure systematic control over all of the Bank's material risks and to provide an independent and objective assessment of effectiveness and compliance with regard to the Bank's internal governance arrangements on the basis of a review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks.

Organisational aspects of the risk management process

SID Bank's organisational structure and work processes are such as to allow the business objectives to be achieved at the same time as the 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. The risk management structure in place includes an active role for the supervisory board and the management board. Within the Bank's organisational structure, the risk management framework or function is segregated in organisational terms from the commercial units that take up risks, i.e. within the credit process up to the level of the executive director who covers the organisational unit responsible for the assessment of credit risks of individual business entities and groups of connected clients, while the risk management function at the aggregate level of the Bank is directly accountable to the management board. Regular participation in meetings of the supervisory board is ensured when issues relating to the risk management function are discussed and in risk committee meetings, as well as direct access to the chair of the supervisory board and chair of the supervisory board's risk committee for the provision of information on important circumstances that affect or could affect the Bank's risk profile.

In terms of the three lines of defence system, the internal governance framework enables the Bank to identify all (significant) risks to which it is exposed and to more easily obtain assurance that its risk exposure is in compliance with its adopted risk appetite and other restrictions.

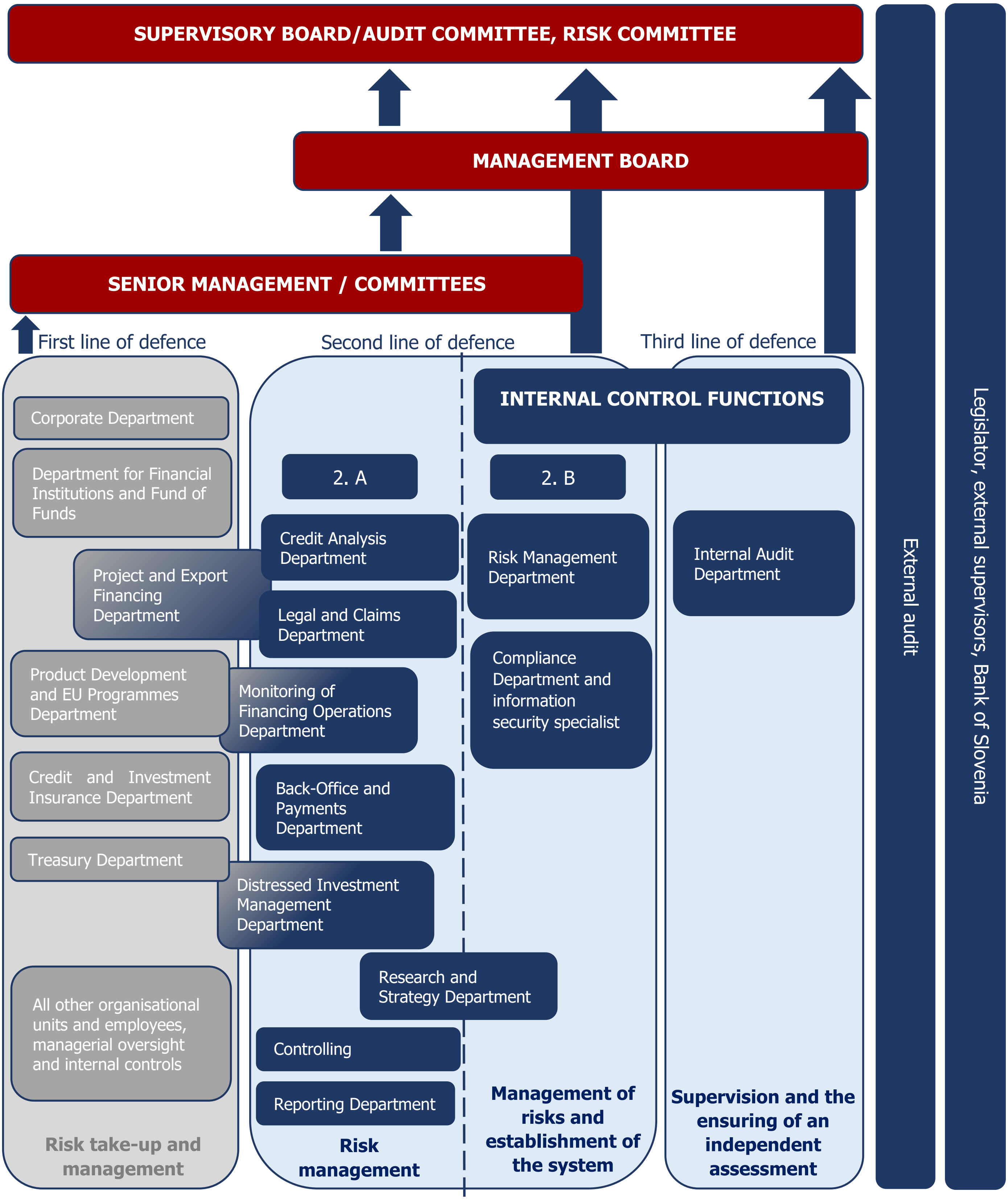
By accurately defining the internal relations regarding accountability, the three lines of defence provide an assurance that the information collected about all known and new risks, the amount of risk exposure and adequacy of the control environment is relevant and thus enables the management body and the Bank's other decision-making bodies to adopt correct decisions. The graphic illustration of risk management defence lines is given in the figure Delineation of roles and responsibilities for the risk management process.

The first line of defence comprises organisational units, which take up risks. They are responsible for the management and control of risks in practice, carrying out business processes daily, taking into account the control measures and other imposed restrictions.

The second line of defence comprises organisational units that manage risks and/or participate in the introduction and implementation of the risk management system. The second line of defence also creates a suitable framework and risk management methodologies, and monitors the risk profile and the effectiveness of controls at all organisational units in the first line of defence.

The third line of defence independently supervises and assesses the established risk management system and the functioning of internal controls. It issues potential recommendations for improvements to processes, procedures and controls, and also verifies the compliance of the Bank's conduct with regulations and internal bylaws. It also reports regularly to the Bank's management board, audit committee and supervisory board on its work, its findings and following-up the implementation of recommendations.

Delineation of roles and responsibilities for the risk management process



Within the scope of their powers and duties under the ZBan-2, the Bank's management board and supervisory board are responsible for defining, adopting and regularly reviewing the strategy and policies for the take-up and management of the risks to which the Bank is or could be exposed in its operations, including risks from the macroeconomic environment in which the Bank operates, taking into account the current business cycle. The risk management strategy and policies include guidelines on the take-up of risks, as well as procedures and tools for managing the risks. The risk management action plan is adopted by the Bank's management board with the consent of the supervisory board, following consultation with the supervisory board's risk committee.

Regular quarterly reports on performance, on risks and on movements on financial markets are produced to provide the management board and supervisory board with comprehensive information regarding risk management issues. The regular risk reports contain information regarding SID Bank's exposure to credit risk at the level of the entire credit portfolio, including a detailed analysis of individual and sectoral concentration of the credit portfolio, the credit portfolio structure by geographical area, credit rating, exposure to currency risk, liquidity risk and interest rate risk, and an assessment of any other risks. The management board and the supervisory board discuss and approve the result of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP), and the Bank's capital adequacy and liquidity with regard to its risk profile on an annual basis. The management body is also briefed on risk management in the context of the discussion and adoption of SID Bank's annual report. In addition, the Bank's management board is regularly briefed on and discusses the operational risk report, and the management body is briefed on and discusses the report on the engagement of external vendors. The management body discusses individual exposures or proposals to increase exposure requiring approvals from the management body, or in the event of any major changes in the risks identified in accordance with SID Bank's articles of association.

The supervisory board is assisted in performing its supervisory duties regarding risk management by the risk committee, which provides advice regarding the Bank's general risk appetite and risk management strategy, supervises senior management regarding the risk management strategy, and verifies whether risks are taken into account in the incentives within the scope of the remuneration system and whether the prices of the Bank's products are compatible with its business model and with the risk management strategy.

SID Bank has not set up a separate risk management committee. Risks are dealt with by three committees at SID Bank, which are of key importance in the area of risk management: the asset-liability and liquidity management committee, the credit committee, and the distressed investment management committee. Committee meetings are typically held once a week.

The asset-liability and liquidity management committee provides guidance, supervision and monitoring of risk management at the Bank, including risk management at the aggregate level of the Bank, balance-sheet structure and capital adequacy. In order to manage liquidity, credit, interest rate, operational, capital, profitability and market risk, as well as any other risks at the level of SID Bank, it is responsible, in particular, for monitoring, analysing and assessing:

- the results of the Bank's performance in terms of achievement of the business objectives;
- the structure of the Bank's balance sheet;
- developments, changes and trends regarding the Bank's balance sheet;
- reports on capital, capital requirements, capital ratios and the leverage ratio;
- reports on the Bank's exposure to liquidity risk, interest rate risk, market risk, capital risk, credit risk, operational risk and profitability risk;
- the Bank's investments, by taking into consideration profitability and risks as regards the realisation of the planned objectives;
- the impact of the introduction of new financing programmes and/or individual products on the structure of the balance sheet, capital adequacy and the Bank's profit;

- the structure and performance of the Bank's products;
- the draft business plans and their amendments under materially changed operating conditions in individual areas of the Bank's operations;
- the Bank's accounting policies and principles;
- the financial statements of SID Bank;
- relations with related parties;
- trading volumes and the fulfilment of related capital requirements;
- the fulfilment of performance criteria in line with regulations and the Bank's business policy; and
- the results of stress testing.

The criteria taken into consideration by the asset-liability and liquidity management committee in asset and liability management include capital adequacy, the profitability of operations and the performance of products/services.

The credit committee is responsible for managing credit risk for operations on behalf of and for the account of SID Bank. It makes decisions on proposals (regarding specific investment operations) that have an impact on the credit risk exposure of SID Bank, and discusses the watch list and reports on the findings of periodic and in-depth monitoring, the fulfilment or non-fulfilment of financial and other contractual commitments, the issuing of reminders, recovery, the monitoring of collateral, and the impairment and provisioning rates for investment operations.

The distressed investment management committee is responsible for the management of non-performing exposures under the care of the distressed investment management department, measures for the forbearance of exposures, and for the cancellation and termination of an investment transaction due to financial difficulties or other breaches of contractual commitments by a debtor. It is also responsible for dealing with the transitional watch list, the list of forborne and insolvent exposures, reports on recoveries, collateral, and fulfilment of the financial and other contractual commitments applying to forborne transactions.

The general risk management framework is described in the business section of the Risk management chapter, where other bodies and organisational units responsible for the direct implementation of risk management are specified.

3.1 Credit risk

As far as credit risk is concerned, SID Bank's operations are most exposed to the risk of losses arising from a counterparty's inability to settle contractual liabilities by the originally agreed deadline without the liquidation of collateral. SID Bank actively manages credit risk by, *inter alia*, eliminating any deficiencies identified, improving management procedures and methods, and upgrading the risk management methodology.

The umbrella document dealing with the management of credit risk in SID Bank operations is the Credit Risk Management Policy. That policy defines the attitude to the take-up of credit risk in relation to SID Bank's business objectives and strategy, risk appetite, mechanisms and procedures for identifying, measuring or assessing, monitoring, managing and reporting on credit risks, and the powers and responsibilities of the management body, the relevant committees and individual organisational units in relation to the management of credit risk.

The documents integral to comprehensive credit risk management at SID Bank include all the applicable regulations and bylaws that define in detail the credit risk management methodologies, procedures and tools used by SID Bank for the approval and securing of investment operations, the monitoring and management of the credit portfolio, the determination of a debtor's rating grade, the classification of exposures, the calculation of interest, the management of non-performing exposures, etc. The Credit Risk Management Policy also incorporates the main substantive points of the applicable bylaws that address credit risk management.

Operations relating to credit risk include all active investment operations that give rise to credit risk, i.e. loans, including contingent liabilities and commitments given, deposits placed, transactions involving investments in securities that SID Bank manages for the purpose of ensuring liquidity and asset-liability management, other financial assets and transactions involving derivatives that the Bank uses exclusively for the purpose of hedging open foreign-exchange and interest-rate positions.

The level to which credit risk is taken on is determined in accordance with the adopted risk appetite, which is reflected through the limits placed on exposure to credit risk. The scope of the take-up of credit risk is adopted annually by the management body as part of the process of adopting the annual operational plan and the risk management strategy, and upon the introduction of every new product.

From the point of view of the identification and assessment or measurement of credit risk, credit risk management at SID Bank comprises activities connected with assessing debtors' creditworthiness, compiling credit-rating reports and assigning debtors to the appropriate rating grades. The credit committee or another competent body approves any exposure in line with the authorisations for approval of transactions as set out in SID Bank's bylaws and articles of association and in accordance with the value of an investment and the existing exposure.

As regards the limits on exposure to credit risk, they first take account of the regulatory limits under the applicable banking legislation concerning the exposure to individual clients, groups of connected clients or persons in a special relationship with SID Bank. Credit risk take-up is also limited by SID Bank's articles of association and its internal limits.

Classification of financial assets and commitments given into rating grades

SID Bank assesses clients' credit quality after making an assessment of the relevant quantitative and qualitative elements. It places them in one of 21 internal rating grades, which are then combined into five rating pools from A to E, in accordance with the Bank of Slovenia's criteria.

The quantitative elements include an assessment of the client's financial and asset positions and all identified risk factors, such as delays in SID Bank and other reporting entities submitting reports into the SISBIZ, blocked accounts, delays in the payment of taxes and liabilities to employees, and official entries. The qualitative elements take account of all soft information on the client at the Bank's disposal. Before their investment transaction is approved, all clients are assigned the appropriate rating grade. Their business operations are then monitored for the lifetime of the investment transaction and ongoing assessments made to verify whether the rating grade is still appropriate.

The Bank has developed separate methodologies for assigning ratings to clients and for assessing credit quality: a methodology for assessing corporates, sole traders and cooperatives, which includes a methodology for assessing investment projects and newly established corporates, and a methodology for assessing banks and savings banks. The credit ratings of domestic public-sector entities are derived from Slovenia's sovereign credit rating.

Management of credit protection

Before entering into a contractual relationship, SID Bank compiles an assessment of the client's creditworthiness, as the primary source of repayment. Collateral is used as a secondary source of loan repayment and is not a replacement for the primary creditworthiness of the debtor. The internal rulebook on collateral for investment operations is a document under which credit protection is implemented in practice. It defines in detail:

- the types and conditions of acceptable collateral with regard to the type of debtor and the investment transaction;
- the competencies of specific organisational units in accordance with the rules on internal organisation;
- the ratio between the value of the collateral and the value of the investment transaction per type of collateral;
- the documentation required per individual type of collateral so as to ensure the legal certainty of the collateral;

- the methodology for valuing individual types of collateral, which sets out the method, monitoring and frequency of valuation;
- the policy of regularly vetting the independence and qualifications of appraisers and the quality of their valuations;
- the types of collateral requiring a physical inspection of the assets pledged as collateral; and
- the liquidation and/or termination of collateral.

The level of detail of the breakdown of collateral is unambiguously defined in the regulatory requirements contained in the CRR and in the Bank of Slovenia's regulations. For the purpose of taking account of collateral in the assessment of expected credit losses, SID Bank values at zero any collateral that does not meet the requirements of the Regulation on credit risk management at banks and savings banks.

Commercial real estate is valued by SID Bank pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards. Unless they are used as collateral for non-performing exposures, apartments with a value of up to EUR 250 thousand are valued in accordance with the generalised value as supplied by the Surveying and Mapping Authority of the Republic of Slovenia (GURS). For the purpose of valuing apartments with a value of over EUR 250 thousand, and apartment buildings and residential real estate used as collateral for non-performing exposures, SID Bank takes into account the generalised value supplied by GURS if the independent certified appraiser produces an opinion to the effect that the generalised value is appropriate. If the independent certified appraiser assesses that the generalised value is not appropriate, SID Bank obtains a valuation report. When valuing real estate, SID Bank pays due regard to the market value and, in the case of forced liquidation of collateral, to the liquidation value, if the latter is available. Over the lifetime of an exposure, SID Bank regularly monitors the value of the assets pledged and assesses the value of business and residential real estate at least twice a year using statistical methods. In the case of real estate used as collateral for an exposure in excess of EUR 3 million, or 5% of the Bank's regulatory capital, SID Bank obtains the valuation report at least every three years. SID Bank also obtains a reassessment from a certified appraiser whenever the information at the Bank's disposal indicates that the value of the real estate may have materially declined relative to the general level of market prices. In the case of using commercial and residential real estate as collateral for non-performing exposures with a gross value in excess of EUR 300 thousand, SID Bank obtains a reassessment from an independent certified appraiser every year. Securities traded on a regulated securities market are valued by SID Bank at the average price or, if not available, at the closing price, in accordance with the Guidelines for implementing the regulation on reporting by monetary financial institutions. Non-marketable equities and participating interests in a company are valued pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards. SID Bank values business equipment and motor vehicles pursuant to a purchase agreement or invoice between unconnected parties, where the agreement or invoice may not be more than one year old, or a valuation report compiled by an independent certified appraiser in accordance with valuation standards. SID Bank values inventories pursuant to an authentic monthly printout from the debtor's accounting records. Patents, trademarks and models are valued pursuant to a valuation report compiled by an independent certified appraiser in accordance with valuation standards. Assigned receivables are valued pursuant to monthly reports by debtors, without taking into account past-due claims and claims against legal or natural persons that comprise a group of clients connected with the debtor. SID Bank gives collateral in the form of assignment of all current and future receivables (global fiduciary assignment) a value of EUR 0. Sureties, accessions to debt and guarantees are valued in accordance with the value of exposure or the contractual amount of the surety, accession to the debt or guarantee, whichever is lower. SID Bank gives a value exceeding EUR 0 for the guarantees of legal persons only if the rating grade of the legal entity giving the guarantee is higher than or equal to BBB-, based on the internal credit quality assessment methodology. Guarantees from natural persons are valued at zero. Deposits are valued in accordance with the balance of the deposit. SID Bank's insurance policy issued for the account of the Republic of Slovenia for insurance against commercial risks is valued at the level of the Slovenian government guarantee for commercial risk, as set out in the insurance contract.

Only collateral whose maturity is longer than the maturity of the investment transaction is considered by the Bank to be eligible collateral. The currency of the collateral is, as a rule, identical to the currency of the investment transaction. In the event of a currency mismatch, the Bank has a specified higher ratio in place between the amount of collateral and the amount of the investment transaction.

Throughout the lifetime of the exposure, SID Bank monitors the debtor's rating grade and the coverage of the exposure by collateral. Should the value of the collateral fall, the Bank takes action to establish additional collateral as appropriate. If the ratio between the value of overall collateral arising from a specific investment transaction and the current exposure declines by more than 50% relative to the ratio that existed at the time the investment transaction was approved, the debtor concerned is placed on the watch list.

When calculating the capital requirement for credit risk using the standardised approach, SID Bank does not take into account a reduction in risk-weighted assets as a result of the effects of collateral, except when it is evident from the specific nature of a certain product that an exposure itself does not represent credit risk, where it is known in advance that losses would not be charged to the Bank's capital, even if the effects of collateral are not taken into account.

Estimation of credit losses

For the estimation of expected credit losses, SID Bank has put in place its own methodology in accordance with IFRS 9, which is defined in the internal rulebook, and includes:

- the classification of exposures into stages for the purpose of estimating expected credit losses, including the definition of a methodology for assessing a significant increase in credit risk;
- the segmentation of the portfolio for the calculation of expected credit losses (PD and LGD segments);
- the modelling of probability of default (PD) and loss given default (LGD);
- the calculation of expected credit losses; and
- back-testing.

The estimation of expected credit losses is defined in more detail in section 2.3.8 under the title Impairments of financial assets and provisions.

Credit risk monitoring

SID Bank carries out regular and in-depth monitoring of credit risk. Regular includes regular monitoring to ensure that the debtor's rating grade remains appropriate, the monitoring of the fulfilment of financial and other contractual commitments, verification of the adequacy and amount of collateral, and the monitoring and updating of groups of connected clients. SID Bank carries out in-depth monitoring when it detects a serious breach of contractual obligations, a deterioration in the debtor's financial and asset position, an increase in the risk derived from the purpose-specific use of the loan, or other circumstances that affect or may affect the debtor's business operations and the successful conclusion of the investment transaction.

In general, SID Bank regularly carries out in-depth monitoring on the basis of a list approved by the credit committee. When creating a watch list, the amount and maturity of an investment transaction, the debtor's rating grade and other criteria that entail a debtor being placed on a watch list and that affect the credit risk are taken into account.

Early warning system for detecting an increased credit risk

SID Bank has put in place an early warning system (EWS) as part of its credit risk management system. The EWS facilitates the early detection of increased credit risk for any exposure and potential defaulter. The EWS is based on internally defined criteria for inclusion on or removal from the list that enable SID Bank to identify any potential difficulties in debt repayment at an early stage and to try to prevent any further deterioration in the credit quality of the exposure by taking timely corrective measures and monitoring the implementation of measures so that the debtor does not move to a position of default. Certain indicators of client difficulties are updated automatically every day from external data sources (e.g. blocked accounts or delays in payment at other banks, failure to fulfil tax obligations, etc.) and are notified by other competent departments.

SID Bank monitors exposures with an increased credit risk on the watch list and the transitional list of defaulters discussed on a weekly basis by the credit committee. If, after successfully performing the relevant measures, a debtor no longer meets any of the criteria for being placed on the watch list, they are returned to ordinary treatment, or are reclassified as distressed investments if they meet the criteria for reclassification of the exposure as a distressed investment.

Management of non-performing exposures

Non-performing exposures that have been classified as distressed investments based on a decision of the responsible committee are assigned to a special organisational unit that manages distressed investments. That organisational unit performs a multi-phased segmentation with the aim of identifying debtors with the ability to generate cash flow from their core activity and to service their financial debt at the same time. The forbearance of the exposure in question or the recovery process is initiated based on the results of that segmentation.

SID Bank has in place a special bylaw Strategy for managing and reducing non-performing exposures that includes time-based definitions of quantitative targets (increased repayments, reduced losses, reduced stock of non-performing exposures, etc.), supported by an appropriate comprehensive operational plan to meet these targets. The bylaw is generally updated annually.

In the forbearance of non-performing loans, SID Bank complies with the EBA guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06) and the Slovenian corporate debt restructuring principles, prepared by the Bank of Slovenia together with the Bank Association of Slovenia. SID Bank also pays due regard to the Restructuring guidelines for micro, small and medium-sized companies (MSME) and the Bank' of Slovenia's Handbook for effective management and workout of non-performing loans. SID Bank monitors non-performing loans on special lists; these are the transitional list, the list of forborne exposures and the list of insolvent exposures, which are generally discussed on a weekly basis by the distressed investment management committee.

Recovery procedure

Recovery takes place in accordance with internal procedures. It is divided into extra-judicial and judicial recovery. The method of recovery chiefly depends on the type of collateral, the length of the delay, the degree of cooperation displayed by the debtor, and the amount of any past-due and outstanding exposures of SID Bank to the debtor.

Recovery typically begins with a verbal and written reminder to the debtor. If the procedure of issuing reminders is unsuccessful or the exposure could not be forborne, procedures are usually initiated to redeem collateral instruments.

If extra-judicial recovery is not successful, judicial recovery is initiated and headed by the distressed investment management department in accordance with the circumstances of a specific case.

Management and monitoring of credit risk

SID Bank manages credit risk in several ways:

- by determining the risk appetite and the risk appetite indicators;
- by setting internal limits in order to limit the concentration of exposure for specific segments, economic sectors and geographical areas;
- by taking into account the limits of exposure to individual debtors, groups of connected clients and shadow banking entities;
- by establishing collateral;
- by identifying the risk posed by a specific debtor and creating impairments and provisions for on-balance-sheet assets or off-balance-sheet liabilities; and
- by ensuring sufficient capital to cover unexpected credit risk losses.

The monitoring of credit risk begins upon the conclusion of a contractual relationship in the process of credit risk take-up, and ends on the day all of the debtor's contractual and other obligations have been performed.

In credit operations, creditworthiness is determined when an individual investment transaction is reviewed with reference to the company's calculated borrowing capacity, taking into account long-term sustainable EBITDA (defined on the basis of past operations and critically assessed projections of future operations), less the normalised volume of replacement investments, normalised taxes, long-term expected dividends and gains, and the current and envisaged financial debt. During the simplified procedure of processing low-value deposits, the assessment of a company's maximum borrowing capacity is calculated on the basis of data derived from past operations, based on which the free portion of a client's borrowing limit is then calculated depending on the client's valid credit rating, current client exposure and maturity of the requested financing.

Credit risk from securities arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and asset and liability management. 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, the type of instrument, and the monitoring of the market values of securities. The system of limits in this area is designed so as to ensure investment primarily in debt securities of higher credit quality. Generally speaking, it does not allow any investment in financial instruments of foreign issuers without a credit rating from an international rating agency.

SID Bank has no financial instruments held for trading. Counterparty credit risk is also taken into account when settling transactions in securities and in relation to derivatives. SID Bank calculates its credit exposure arising from derivatives using the original exposure method, according to which the exposure value is the notional amount of each instrument multiplied by the percentages set out in Article 275 of the CRR.

In accordance with the business model and business strategy adopted by SID Bank increased concentration is with full awareness accepted for the following:
- groups of debtors and sectors that are involved in Slovenia's exports to an above-average degree;
- groups of customers and sectors that were hit hardest by the negative effects of the COVID-19 pandemic, where SID Bank is implementing intervention and countercyclical measures;
- certain countries that are major destinations for Slovenia's merchandise exports, exports of services and outward FDI; and
- banks involved in exports transactions and banks established in Slovenia, which transfer the funding thus obtained to final beneficiaries under the Slovene Export and Development Bank Act or another law.

Maximum exposure to credit risk

31 Dec 2020	Maximum credit risk	Collateral in the form of property	Other credit enhancements	Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,947,733**	**754,783**	**132,326**	**887,109**
Cash, cash balances at central banks and other demand deposits at banks	120,187	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	17,765	0	37	37
Loans and advances to customers	17,765	0	37	37
Financial assets measured at fair value through other comprehensive income	877,463	0	14,979	14,979
Debt securities	877,463	0	14,979	14,979
Financial assets measured at amortised cost	1,931,165	754,783	117,310	872,093
Loans and advances to banks	786,470	0	30,774	30,774
Loans and advances to customers	1,143,456	754,783	86,536	841,319
Other financial assets	1,239	0	0	0
Hedging derivatives	1,153	0	0	0
Gross off-balance-sheet exposures	**270,640**	**25,242**	**30,495**	**55,737**
Guarantees	71,363	8,891	30,495	39,386
Assets: undrawn loans	172,343	16,351	0	16,351
Uncalled unpaid capital	26,934	0	0	0
Total gross credit risk exposure	**3,218,373**	**780,025**	**162,821**	**942,846**

31 Dec 2019	Maximum credit risk	Collateral in the form of property	Other credit enhancements	Overall reduction in credit risk
Gross on-balance-sheet exposures	**2,432,290**	**533,135**	**137,084**	**670,219**
Cash, cash balances at central banks and other demand deposits at banks	72,729	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	12,927	39,606	0	39,606
Loans and advances to customers	12,927	39,606	0	39,606
Financial assets measured at fair value through other comprehensive income	658,328	0	10,347	10,347
Debt securities	658,328	0	10,347	10,347
Financial assets measured at amortised cost	1,688,306	493,529	126,737	620,266
Loans and advances to banks	837,175	0	28,998	28,998
Loans and advances to customers	845,870	493,529	97,739	591,268
Other financial assets	5,261	0	0	0
Gross off-balance-sheet exposures	**259,689**	**4,900**	**37,830**	**42,730**
Guarantees	63,824	0	31,922	31,922
Assets: undrawn loans	183,865	4,900	5,908	10,808
Uncalled unpaid capital	12,000	0	0	0
Total gross credit risk exposure	**2,691,979**	**538,035**	**174,914**	**712,949**

The table shows that the largest exposure to credit risk on the part of SID Bank as at 31 December 2020 arose from balances at the central bank and demand deposits at banks, financial assets mandatorily at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost, derivatives held for hedging, and off-balance-sheet liabilities, without taking into consideration credit protection.

As at 31 December 2020, SID Bank's exposure to credit risk had risen by EUR 526,394 thousand relative to 31 December 2019. Exposure from loans and other financial assets measured at amortised cost rose by EUR 242,859 thousand, while exposure from financial assets measured at fair value through other comprehensive income was up by EUR 219,135 thousand, exposure from balances at the central bank and demand deposits at banks by EUR 47,458 thousand, exposure from off-balance-sheet liabilities by EUR 10,951 thousand, exposure from loans mandatorily at fair value through profit or loss by EUR 4,838 thousand, and exposure from derivatives held for hedging by EUR 1,153 thousand.

Collateral as disclosed in the table includes collateral in the form of residential real estate, commercial real estate, shares and participating interests, bank deposits, other material assets and other forms of collateral.

Other credit enhancements shown in the table include collateral in the form of irrevocable Slovenian government guarantees and financial guarantees.

When estimating expected credit losses for exposures assigned to Stages 1 and 2, SID Bank takes collateral into account in the calculation of the loss-given-default (LGD) curves for each homogeneous LGD segment. When calculating the loss-given-default curves, SID Bank reduces the value of the collateral by the haircut (HC) determined for each type of collateral, and also incorporates forward-looking information when determining the value of the collateral. When determining the haircut, SID Bank largely takes into account the methodology from the Guidelines for calculating default rate and loss rate issued by the Bank of Slovenia. With regard to collateral in the form of other material assets and other forms of collateral, SID Bank mostly takes account of a haircut in the amount of 95%.

When estimating expected credit losses for exposures assigned to Stage 3, where the expected credit losses are calculated using the collateral assessment methodology, SID Bank determines the collateral value in the same way as for the calculation of the loss-given-default curves.

For the situation as at 31 December 2020, SID Bank applied the collateral assessment methodology when calculating the expected credit losses for 35 (in the total amount of EUR 20,471 thousand) of the total of 50 exposures assigned to Stage 3, and three POCI items (in the amount of EUR 1,158 thousand) of the total 10 non-performing POCI items.

The estimation of expected credit losses is defined in more detail in section 2.3.8 under the title Impairments of financial assets and provisions.

As at 31 December 2020, the value of the collateral amounted to EUR 728,364 thousand for exposures assigned to Stage 1, EUR 192,234 thousand for exposures assigned to Stage 2 and EUR 8,040 thousand for exposures assigned to Stage 3, and EUR 14,171 thousand for POCI items. The value of collateral for financial assets mandatorily at fair value through profit or loss amounted to EUR 37 thousand as at 31 December 2020.

Types of credit protection

31 Dec 2020	Collateral in the form of irrevocable Slovenian government guarantees	Collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees	Collateral in the form of commercial real estate	Collateral in the form of residential real estate	Collateral in the form of shares and participating interests	Collateral in the form of other material assets	Other forms of collateral	Total
Financial assets	**51,367**	**80,959**	**428,423**	**15,044**	**72,549**	**215,023**	**23,744**	**887,109**
Non-trading financial assets mandatorily at fair value through profit or loss	37	0	0	0	0	0	0	37
Loans and advances to customers	37	0	0	0	0	0	0	37
Financial assets measured at fair value through other comprehensive income	213	14,766	0	0	0	0	0	14,979
Debt securities	213	14,766	0	0	0	0	0	14,979
Financial assets measured at amortised cost	51,117	66,193	428,423	15,044	72,549	215,023	23,744	872,093
Loans and advances to banks	30,774	0	0	0	0	0	0	30,774
Loans and advances to customers	20,343	66,193	428,423	15,044	72,549	215,023	23,744	841,319
Off-balance-sheet liabilities	**0**	**30,495**	**3,159**	**0**	**0**	**13,192**	**8,891**	**55,737**
Guarantees	0	30,495	0	0	0	0	8,891	39,386
Assets: undrawn loans	0	0	3,159	0	0	13,192	0	16,351
Total	**51,367**	**111,454**	**431,582**	**15,044**	**72,549**	**228,216**	**32,634**	**942,846**

31 Dec 2019	Collateral in the form of irrevocable Slovenian government guarantees	Collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees	Collateral in the form of commercial real estate	Collateral in the form of residential real estate	Collateral in the form of shares and participating interests	Collateral in the form of other material assets	Other forms of collateral	Total
Financial assets	**44,455**	**67,428**	**313,973**	**6,749**	**77,383**	**135,029**	**25,202**	**670,219**
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	39,447	159	0	0	0	39,606
Loans and advances to customers	0	0	39,447	159	0	0	0	39,606
Financial assets measured at fair value through other comprehensive income	213	10,134	0	0	0	0	0	10,347
Debt securities	213	10,134	0	0	0	0	0	10,347
Financial assets measured at amortised cost	44,242	57,294	274,526	6,590	77,383	135,029	25,202	620,266
Loans and advances to banks	28,998	0	0	0	0	0	0	28,998
Loans and advances to customers	15,244	57,294	274,526	6,590	77,383	135,029	25,202	591,268
Off-balance-sheet liabilities	**0**	**31,922**	**4,900**	**0**	**0**	**5,908**	**0**	**42,730**
Guarantees	0	31,922	0	0	0	0	0	31,922
Assets: undrawn loans	0	0	4,900	0	0	5,908	0	10,808
Total	**44,455**	**99,350**	**318,873**	**6,749**	**77,383**	**140,937**	**25,202**	**712,949**

The total value of SID Bank's collateral amounted to EUR 942,846 thousand as at 31 December 2020, an increase of EUR 229,897 thousand in comparison with 31 December 2019. The collateral meets the requirements of the Regulation on credit risk management at banks and savings banks for the purpose of taking account of credit protection in the assessment of expected credit losses.

On 31 December 2020, SID Bank undertook a revaluation, using a statistical method, of real estate collateral that was appraised up to and including 30 June 2020.

As regards type of collateral, collateral in the form of commercial real estate accounts for the highest proportion in terms of volume, followed by collateral in the form of other material assets, financial guarantees (excluding irrevocable Slovenian government guarantees), shares and participating interests, irrevocable Slovenian government guarantees, other forms of collateral and collateral in the form of residential real estate.

As regards collateral in the form of irrevocable Slovenian government guarantees, collateral in the form of SID Bank insurance policies issued for the account of the Republic of Slovenia to insure against commercial risks accounts for the highest proportion in terms of volume. This is followed by Republic of Slovenia guarantees (ZIUZEOP) for loan moratoria in accordance with the ZIUOPOK.

As regards collateral in the form of financial guarantees that are not irrevocable Slovenian government guarantees, collateral in the form of a sovereign limited conditional subsidiary guarantee accounts for the highest proportion in terms of volume, followed by bank guarantees, corporate guarantees of companies with a higher than BBB- rating on the basis of the internal credit quality assessment methodology, and ECB, state and central bank guarantees, which are assigned a risk rating of 0 or 1 under the minimum export insurance premiums (MEIP) listing.

As regards collateral in the form of other material assets, collateral in the form of the pledging of inventories accounts for the highest proportion in terms of volume, followed by collateral in the form of the pledging of business equipment and motor vehicles.

As regards other forms of collateral, collateral in the form of the assignment of claims that are secured accounts for the highest proportion in terms of volume, followed by collateral in the form of a lien on other rights (patents, trademarks, models), the pledging of European cohesion policy funds as collateral for portfolio guarantees, and collateral in the form of the assignment of claims that are not secured.

Securing of loans and claims

	Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2020	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral
Financial assets measured at amortised cost				
Loans and advances to banks	0	0	783,725	30,774
Loans and advances to customers	341,966	747,490	731,829	93,829
Other financial assets	0	0	1,230	0
Total	**341,966**	**747,490**	**1,516,784**	**124,603**

	Fully secured and over-secured loans		Unsecured and under-secured loans	
31 Dec 2019	Net value of loans and claims	Fair value of collateral	Net value of loans and claims	Fair value of collateral
Financial assets measured at amortised cost				
Loans and advances to banks	0	0	835,770	28,998
Loans and advances to customers	265,220	525,763	538,403	65,504
Other financial assets	0	0	5,261	0
Total	**265,220**	**525,763**	**1,379,434**	**94,502**

Fully secured and over-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is higher than or equal to the gross carrying amount of the loan or other financial asset. Unsecured and under-secured loans are loans and other financial assets measured at amortised cost, where the fair value of the collateral is lower than the gross carrying amount of the loan or other financial asset.

A large part of SID Bank's portfolio of loans and other financial assets measured at amortised cost comprises loans to banks established in Slovenia, which transfer the funding thus obtained to the final beneficiaries under the ZSIRB. The above loans are generally unsecured. As at 31 December 2020, secured loans to banks were loans to foreign banks secured by SID Bank insurance policies issued for the account of the Republic of Slovenia to insure against commercial risks and non-commercial risks.

Analysis of credit quality – financial assets measured at amortised cost and off-balance-sheet liabilities

	31 Dec 2020		31 Dec 2019	
Gross carrying amount of loans and off-balance-sheet liabilities	**2,201,805**	**100.0%**	**1,947,996**	**100.0%**
A	1,274,936	57.9%	1,036,513	53.2%
B	803,556	36.5%	774,664	39.8%
C	86,242	3.9%	101,861	5.2%
D	18,532	0.8%	17,960	0.9%
E	18,539	0.8%	16,998	0.9%
Allowances for credit losses and provisions	**(75,606)**	**100.0%**	**(45,184)**	**100.0%**
A	(3,267)	4.3%	(1,190)	2.6%
B	(30,044)	39.7%	(8,929)	19.7%
C	(19,950)	26.4%	(14,537)	32.2%
D	(4,712)	6.2%	(3,869)	8.6%
E	(17,633)	23.3%	(16,659)	36.9%
Net carrying amount of loans and off-balance-sheet liabilities	**2,126,199**		**1,902,812**	

As at 31 December 2020, SID Bank disclosed gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities of EUR 2,201,805 thousand. This was an increase of EUR 253,809 thousand relative to 31 December 2019. Affecting the change in the gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities was an increase in loans and advances to customers and off-balance sheet liabilities, while gross exposure from loans and advances to banks and from other financial assets was down.

As at 31 December 2020, 94.4% of financial assets measured at amortised cost and off-balance-sheet liabilities had been assigned rating grades of A and B. This was an increase of 1.4 percentage points on the situation as at 31 December 2019.

The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A increased and stood at 57.9% as at 31 December 2020 (31 December 2019: 53.2%). The main reasons for the increase in the proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A was the approval of new transactions vis-à-vis customers with a rating grade of A and the reclassification of loans and advances to customers and off-balance-sheet liabilities from rating grade B. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of B was down primarily due to the repayment of loans and advances to banks and the reclassification of loans and advances to customers to rating grades A, C and D. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of C was down due to the reclassification of loans and advances to customers to rating grade B and the repayment of loans and advances to customers.

Financial assets measured at amortised cost and off-balance-sheet liabilities that meet at least one of the following criteria of default are assigned rating grades of D and E:

- the debtor is more than 90 days past due on any material credit obligation to SID Bank; and
- it is unlikely that the debtor will settle its credit obligations to SID Bank in full, without recourse by the Bank to actions such as liquidation of collateral or other procedures.

As at 31 December 2020, 1.6% of financial assets measured at amortised cost and off-balance-sheet liabilities had been assigned rating grades of D and E. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of D and E was down relative to the balance as at 31 December 2019, while gross exposure increased by EUR 2,113 thousand relative to 31 December 2019. Gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of D amounted to EUR 18,532 thousand as at 31 December 2020, an increase of EUR 572 thousand relative to 31 December 2019. Contributing to the increase in gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned to rating grade D were new default events and the resulting reclassification of performing exposures to non-performing exposures, while the decrease in gross exposure was the result of received repayments, the reclassification of exposures to rating grade E, and fewer shifts for POCI items that reduce the gross carrying amount of financial assets. Gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of E amounted to EUR 18,539 thousand as at 31 December 2020, an increase of EUR 1,541 thousand relative to 31 December 2019, primarily as the result of the changed method for the disclosure of interest on non-performing exposures and the reclassification of exposures from rating grade D, while the write-offs of financial assets, payments received from the liquidation of collateral and inflows from a bankruptcy estate brought a decrease in gross exposure. Due to a change in implementing regulations, which set out the treatment and reporting on interest on non-performing exposures, the Bank transitioned to a new method for disclosing interest in 2020. In accordance with the change to the Bank of Slovenia's implementing regulations, unrecognised interest on non-performing financial assets in the statement of financial position increase the gross carrying amount of these assets and also increase allowances for credit losses.

SID Bank held allowances for credit losses and provisions in the amount of EUR 75,606 thousand as at 31 December 2020. Allowances for credit losses on loans granted and other financial assets measured at amortised cost amounted to EUR 72,415 thousand, while provisions for off-balance-sheet liabilities amounted to EUR 3,191 thousand. Allowances for credit losses on loans granted and other financial assets measured at amortised cost were up by EUR 28,763 thousand relative to 31 December 2019, while provisions for off-balance-sheet liabilities were up by EUR 1,659 thousand.

Contributing most to the increase in allowances for credit losses on loans granted and other financial assets measured at amortised cost and provisions for off-balance-sheet liabilities in 2020 was a significant increase in the credit risk of individual financial assets in the period from initial recognition, and their consequent assignment to Stage 2, where allowances and provisions for credit losses are measured on the basis of the lifetime expected credit losses on the financial instrument, the recognition of new financial assets, a deterioration in macroeconomic forecasts as a result of the COVID-19 outbreak, which in turn impacts individual parameters of the calculation of expected credit losses, the changed method for disclosing interest on non-performing exposures and new debtor default events and the ensuing reclassification of performing exposures to non-performing exposures.

The COVID-19 outbreak caused an unannounced and sudden reversal in macroeconomic forecasts. The sharp decline in economic activity in Slovenia and across the globe and worse macroeconomic forecasts resulted in the creation of higher allowances and provisions for credit losses. In addition, the increase in allowances and provisions for credit losses was impacted by the intervention and counter-cyclical measures of SID Bank, as Slovenia's primary financial institution concerned with promotional development.

Namely, the stock of new corporate loans granted directly to those affected by the negative effects of the COVID-19 outbreak increased in the scope of formulating new financing programmes, as well as adjustments to existing financing programmes. Due to deteriorating expectations in food services, tourism, the automotive industry and road transport, which could not yet have been identified at the end of 2020 through quantitative criteria in the assessment of significant increase in credit risk, credit analysts performed additional analyses at the level of individual customers, based on which SID Bank reclassified certain exposures from Stage 1 to Stage 2 as at 31 December 2020.

Allowances for credit losses on loans and other financial assets measured at amortised cost and assigned to Stage 3 (non-performing financial assets), where impairments for credit losses are measured on the basis of the lifetime expected credit losses on the financial instrument, were up by EUR 217 thousand in 2020. The changed method for the disclosure of interest on non-performing exposures and new debtor default events and the resulting reclassification from performing exposures to non-performing exposures had the most notable impact on the increase in allowances for credit losses, while the write-offs of financial assets and received repayments led to a decline in allowances for credit losses.

As at 31 December 2020, SID Bank held 12 POCI items, including two performing exposures. SID Bank derecognised three non-performing POCI items in 2020 and recognised three POCI items. As at 31 December 2020, the allowance for credit losses from POCI items was negative and amounted to EUR 1,649 thousand (the allowance for credit losses was positive in the amount of EUR 200 thousand as at 31 December 2019).

Under IFRS 9, a bank is obliged, for POCI items, to recognise the amount of the change in the lifetime expected credit losses on the financial instrument in profit or loss as an impairment gain or loss. A bank is obliged to recognise favourable changes to lifetime expected credit losses of the financial instrument as an impairment gain, even if the lifetime expected credit losses are lower than the amount of the expected losses included in the estimated cash flows at initial recognition. Under IFRS 9, POCI items are initially recognised at fair value in the statement of financial position. Upon subsequent measurement, this represents the basis for measurement at amortised cost.

The estimation of expected credit losses is defined in more detail in section 2.3.8 under the title Impairments of financial assets and provisions.

Analysis of credit quality – non-trading financial assets mandatorily at fair value through profit or loss – loans and advances to customers

31 Dec 2020	Gross carrying amount	Accumulated fair value changes owing to credit risk	Fair value
D	31,987	(14,222)	17,765
E	1,224	(1,224)	0
Total	**33,211**	**(15,446)**	**17,765**

31 Dec 2019	Gross carrying amount	Accumulated fair value changes owing to credit risk	Fair value
D	33,905	(20,978)	12,927
Total	**33,905**	**(20,978)**	**12,927**

Non-trading financial assets mandatorily at fair value through profit or loss comprise non-performing loans to customers, where the fair value is calculated by discounting the estimated cash flows. The increase in fair value (net carrying amount) at the end of 2020 was primarily the result of higher estimated cash flows due to improved corporate performance.

Analysis of credit quality – financial assets measured at fair value through other comprehensive income – debt securities

31 Dec 2020	Stage 1	Total	
Gross carrying amount	**877,463**	**877,463**	**100.0%**
A	848,559	848,559	96.7%
B	28,904	28,904	3.3%
Impairments for credit losses	**(897)**	**(897)**	**100.0%**
A	(347)	(347)	38.7%
B	(550)	(550)	61.3%
Net carrying amount: fair value	**876,566**	**876,566**	

31 Dec 2019	Stage 1	Total	
Gross carrying amount	**658,328**	**658,328**	**100.0%**
A	639,616	639,616	97.2%
B	18,712	18,712	2.8%
Impairments for credit losses	**(309)**	**(309)**	**100.0%**
A	(158)	(159)	51.3%
B	(151)	(151)	48.7%
Net carrying amount: fair value	**658,019**	**658,019**	

As at 31 December 2020, SID Bank disclosed gross exposure from financial assets (debt securities) measured at fair value through other comprehensive income amounting to EUR 877,463 thousand.

Under IFRS 9, a bank is obliged to estimate expected credit losses on financial assets measured at fair value through other comprehensive income.

As at 31 December 2020, all financial assets measured at fair value through other comprehensive income had been assigned to Stage 1 (no significant increase in credit risk since the initial recognition), where impairments for credit losses are measured on the basis of 12-month expected credit losses. Impairments for credit losses on financial assets measured at fair value through other comprehensive income amounted to EUR 897 thousand as at 31 December 2020.

Analysis of credit quality – financial assets measured at amortised cost – loans and advances to banks

31 Dec 2020	Stage 1	Total	
Gross carrying amount	**786,470**	**786,470**	**100.0%**
A	524,912	524,912	66.7%
B	261,558	261,558	33.3%
Credit loss allowances	**(2,745)**	**(2,745)**	**100.0%**
A	(1,260)	(1,260)	45.9%
B	(1,485)	(1,485)	54.1%
Net carrying amount	**783,725**	**783,725**	

31 Dec 2019	Stage 1	Total	
Gross carrying amount	**837,175**	**837,175**	**100.0%**
A	547,589	547,589	65.4%
B	289,586	289,586	34.6%
Credit loss allowances	**(1,405)**	**(1,405)**	**100.0%**
A	(770)	(770)	54.8%
B	(635)	(635)	45.2%
Net carrying amount	**835,770**	**835,770**	

As at 31 December 2020, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to banks) amounting to EUR 786,470 thousand.

As at 31 December 2020, all loans and advances to banks had been assigned to Stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses. Allowances for credit losses on financial assets measured at amortised cost (loans and advances to banks) amounted to EUR 2,745 thousand as at 31 December 2020.

Analysis of credit quality – financial assets measured at amortised cost – loans and advances to customers

31 Dec 2020	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**909,974**	**196,419**	**25,838**	**11,225**	**1,143,456**	**100.0%**
A	547,596	1,264	0	0	548,860	48.0%
B	352,870	118,429	0	0	471,299	41.2%
C	9,508	76,726	0	0	86,234	7.5%
D	0	0	7,299	11,225	18,524	1.6%
E	0	0	18,539	0	18,539	1.6%
Credit loss allowances	**(13,513)**	**(33,812)**	**(20,687)**	**(1,649)**	**(69,661)**	**100.0%**
A	(1,523)	(67)	0	0	(1,590)	2.3%
B	(10,083)	(15,705)	0	0	(25,788)	37.0%
C	(1,907)	(18,040)	0	0	(19,947)	28.6%
D	0	0	(3,054)	(1,649)	(4,703)	6.8%
E	0	0	(17,633)	0	(17,633)	25.3%
Net carrying amount	**896,461**	**162,607**	**5,151**	**9,576**	**1,073,795**	

31 Dec 2019	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**714,272**	**93,627**	**24,654**	**13,317**	**845,870**	**100.0%**
A	382,546	3,565	0	3,012	389,123	46.0%
B	292,458	27,469	0	0	319,927	37.8%
C	39,268	62,593	0	0	101,861	12.0%
D	0	0	7,656	10,305	17,961	2.1%
E	0	0	16,998	0	16,998	2.0%
Credit loss allowances	**(6,741)**	**(15,227)**	**(20,479)**	**200**	**(42,247)**	**100.0%**
A	(556)	(64)	0	249	(371)	0.9%
B	(3,546)	(3,265)	0	0	(6,811)	16.1%
C	(2,639)	(11,898)	0	0	(14,537)	34.4%
D	0	0	(3,820)	(49)	(3,869)	9.2%
E	0	0	(16,659)	0	(16,659)	39.4%
Net carrying amount	**707,531**	**78,400**	**4,175**	**13,517**	**803,623**	

As at 31 December 2020, SID Bank disclosed exposure from financial assets measured at amortised cost (loans and advances to customers) amounting to EUR 1,143,456 thousand.

A total of EUR 909,974 thousand in loans and advances to customers was assigned to Stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses. Allowances for credit losses on loans and advances to customers assigned to Stage 1 amounted to EUR 13,513 thousand as at 31 December 2020.

As SID Bank also approves loan transactions for rating grade C within individual financing programmes involving elements of state aid, EUR 9,508 thousand in loans and advances to customers was assigned to Stage 1.

A total of EUR 196,419 thousand in loans and advances to customers was assigned to Stage 2 (significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument. Allowances for credit losses on loans and advances to customers assigned to Stage 2 amounted to EUR 33,812 thousand as at 31 December 2020.

A total of EUR 25,838 thousand in loans and advances to customers was assigned to Stage 3 (non-performing financial assets), where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument. Allowances for credit losses on loans and advances to customers assigned to Stage 3 amounted to EUR 20,687 thousand as at 31 December 2020.

The gross carrying amount of POCI items was EUR 11,225 thousand as at 31 December 2020. Allowances for credit losses from POCI items was negative and amounted to EUR 1,649 thousand.

Analysis of credit quality – financial assets measured at amortised cost – other financial assets

31 Dec 2020	Stage 1	Stage 3	Total	
Gross carrying amount	**1,230**	**9**	**1,239**	**100.0%**
A	1,230	0	1,230	99.3%
D	0	9	9	0.7%
Credit loss allowances	**0**	**(9)**	**(9)**	**100.0%**
A	0	0	0	0.0%
D	0	(9)	0	100.0%
Net carrying amount	**1,230**	**0**	**1,230**	

31 Dec 2019	Stage 1	Total	
Gross carrying amount	**5,261**	**5,261**	**100.0%**
A	5,242	5,242	99.6%
B	19	19	0.4%
Credit loss allowances	**0**	**0**	**100.0%**
A	0	0	0.0%
B	0	0	0.0%
Net carrying amount	**5,261**	**5,261**	

SID Bank disclosed exposure from financial assets measured at amortised cost (other financial assets) amounting to EUR 1,239 thousand as at 31 December 2020.

A total of EUR 1,230 thousand in financial assets measured at amortised cost (other financial assets) was assigned to Stage 1 (no significant increase in credit risk since the initial recognition), where allowances for credit losses are measured on the basis of 12-month expected credit losses. Allowances for credit losses on financial assets measured at amortised cost (other financial assets), assigned to Stage 1, amounted to EUR 0.06 thousand as at 31 December 2020.

A total of EUR 9 thousand in financial assets measured at amortised cost (other financial assets) was assigned to Stage 3 (non-performing financial assets), where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument. Allowances for credit losses on financial assets measured at amortised cost (other financial assets), assigned to Stage 3, amounted to EUR 9 thousand as at 31 December 2020.

Analysis of credit quality – financial assets measured at amortised cost – total

31 Dec 2020	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**1,697,674**	**196,419**	**25,847**	**11,225**	**1,931,165**	**100.0%**
A	1,073,738	1,264	0	0	1,075,002	55.7%
B	614,428	118,429	0	0	732,857	37.9%
C	9,508	76,726	0	0	86,234	4.5%
D	0	0	7,308	11,225	18,533	1.0%
E	0	0	18,539	0	18,539	1.0%
Credit loss allowances	**(16,258)**	**(33,812)**	**(20,696)**	**(1,649)**	**(72,415)**	**100.0%**
A	(2,783)	(67)	0	0	(2,850)	3.9%
B	(11,568)	(15,705)	0	0	(27,273)	37.7%
C	(1,907)	(18,040)	0	0	(19,947)	27.5%
D	0	0	(3,063)	(1,649)	(4,712)	6.5%
E	0	0	(17,633)	0	(17,633)	24.3%
Net carrying amount	**1,681,416**	**162,607**	**5,151**	**9,576**	**1,858,750**	

31 Dec 2019	Stage 1	Stage 2	Stage 3	POCI	Total	
Gross carrying amount	**1,556,708**	**93,627**	**24,654**	**13,317**	**1,688,306**	**100.0%**
A	935,377	3,565	0	3,012	941,954	55.8%
B	582,063	27,469	0	0	609,532	36.1%
C	39,268	62,593	0	0	101,861	6.0%
D	0	0	7,656	10,305	17,961	1.1%
E	0	0	16,998	0	16,998	1.0%
Credit loss allowances	**(8,146)**	**(15,227)**	**(20,479)**	**200**	**(43,652)**	**100.0%**
A	(1,326)	(64)	0	249	(1,141)	2.6%
B	(4,181)	(3,265)	0	0	(7,446)	17.1%
C	(2,639)	(11,898)	0	0	(14,537)	33.3%
D	0	0	(3,820)	(49)	(3,869)	8.9%
E	0	0	(16,659)	0	(16,659)	38.2%
Net carrying amount	**1,548,562**	**78,400**	**4,175**	**13,517**	**1,644,654**	

Analysis of credit quality – off-balance-sheet items

31 Dec 2020	Stage 1	Stage 2	Total	
Gross carrying amount	**248,218**	**22,422**	**270,640**	**100.0%**
A	199,832	100	199,932	73.9%
B	48,386	22,313	70,699	26.1%
C	0	9	9	0.0%
Provisions	**(1,113)**	**(2,078)**	**(3,191)**	**100.0%**
A	(410)	(7)	(417)	13.1%
B	(703)	(2,069)	(2,772)	86.9%
C	0	(2)	(2)	0.0%
Net carrying amount	**247,105**	**20,344**	**267,449**	

31 Dec 2019	Stage 1	Stage 2	Total	
Gross carrying amount	**247,488**	**12,201**	**259,689**	**100.0%**
A	94,558	0	94,558	36.4%
B	152,930	12,201	165,131	63.6%
Provisions	**(912)**	**(620)**	**(1,532)**	**100.0%**
A	(49)	0	(49)	3.2%
B	(863)	(620)	(1,483)	96.8%
Net carrying amount	**246,576**	**11,581**	**258,157**	

SID Bank disclosed exposure from off-balance-sheet liabilities amounting to EUR 270,640 thousand as at 31 December 2020.

A total of EUR 248,218 thousand in off-balance-sheet liabilities was assigned to Stage 1 (no significant increase in credit risk since the initial recognition), where provisions for credit losses are measured on the basis of 12-month expected credit losses. Provisions for credit losses on off-balance-sheet liabilities assigned to Stage 1 amounted to EUR 1,113 thousand as at 31 December 2020.

A total of EUR 22,422 thousand in off-balance-sheet liabilities was assigned to Stage 2 (significant increase in credit risk since the initial recognition), where provisions for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument and amounted to EUR 2,078 thousand.

Maturity of financial assets

	Gross carrying amount					Credit loss allowances				
31 Dec 2020	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks										
Non-past-due	786,470	0	0	0	786,470	(2,745)	0	0	0	(2,745)
Total	**786,470**	**0**	**0**	**0**	**786,470**	**(2,745)**	**0**	**0**	**0**	**(2,745)**
Loans and advances to customers										
Non-past-due	909,974	195,705	6,583	10,232	1,122,494	(13,513)	(33,758)	(2,667)	(656)	(50,594)
Up to 29 days past due	0	667	305	0	972	0	(47)	(148)	0	(195)
30 to 89 days past due	0	47	208	993	1,248	0	(7)	(111)	(993)	(1,111)
90 to 180 days past due	0	0	20	0	20	0	0	(18)	0	(18)
More than 180 days past due	0	0	18,722	0	18,722	0	0	(17,743)	0	(17,743)
Total	**909,974**	**196,419**	**25,838**	**11,225**	**1,143,456**	**(13,513)**	**(33,812)**	**(20,687)**	**(1,649)**	**(69,661)**
Other financial assets										
Non-past-due	1,230	0	9	0	1,239	0	0	(9)	0	(9)
Total	**1,230**	**0**	**9**	**0**	**1,239**	**0**	**0**	**(9)**	**0**	**(9)**

	Gross carrying amount					Credit loss allowances				
31 Dec 2019	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to banks										
Non-past-due	837,175	0	0	0	837,175	(1,405)	0	0	0	(1,405)
Total	**837,175**	**0**	**0**	**0**	**837,175**	**(1,405)**	**0**	**0**	**0**	**(1,405)**
Loans and advances to customers										
Non-past-due	713,279	89,997	4,490	12,552	820,318	(6,719)	(14,765)	(1,605)	713	(22,376)
Up to 29 days past due	992	3,623	21	10	4,646	(22)	(462)	(6)	(6)	(496)
30 to 89 days past due	0	8	1,161	0	1,169	0	0	(865)	0	(865)
90 to 180 days past due	0	0	479	0	479	0	0	(266)	0	(266)
More than 180 days past due	0	0	18,503	755	19,258	0	0	(17,737)	(507)	(18,244)
Total	**714,271**	**93,628**	**24,654**	**13,317**	**845,870**	**(6,741)**	**(15,227)**	**(20,479)**	**200**	**(42,247)**
Other financial assets										
Non-past-due	5,261	0	0	0	5,261	0	0	0	0	0
Total	**5,261**	**0**	**0**	**0**	**5,261**	**0**	**0**	**0**	**0**	**0**

Past-due financial assets are loans and other financial assets measured at amortised cost, where a debtor is a day or more past due for the whole or part of the exposure. The whole exposure under a specific loan agreement (rather than only the part of the exposure for which the debtor is past due with payment) is classified as a past-due loan or other financial asset. If the Bank is also exposed to the same debtor under other agreements and the debtor is not past due as regards the exposures under other agreements, such exposures are not classified as past-due loans.

The gross carrying amount of past-due claims from loans and other financial assets measured at amortised cost decreased and amounted to EUR 20,962 thousand at the end of 2020 (31 December 2019: EUR 25,552 thousand), which represents 1.1% of all gross exposure resulting from loans and other financial assets measured at amortised cost. The major portion of this amount comprises loans assigned to Stage 3 (non-performing financial assets), where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument.

Past-due loans assigned to Stage 1, where allowances for credit losses are measured on the basis of 12-month expected credit losses, and Stage 2, where allowances for credit losses are measured on the basis of lifetime expected credit losses on the financial instrument, account for 3.4% of all past-due loans (31 December 2019: 18.1%).

Non-past-due loans and other financial assets account for 98.9% of all gross exposure resulting from loans and other financial assets measured at amortised cost. The high proportion of non-past-due loans is connected with the provision of loans to banks established in Slovenia, which transfer the funding thus obtained to the final beneficiaries.

Past-due claims resulting from loans, where the loans have been less than 29 days past due and their gross carrying amount is EUR 972 thousand, are secured with other forms of collateral amounting to EUR 551 thousand and collateral in the form of other material assets amounting to EUR 371 thousand.

Past-due claims resulting from loans, where the loans have been more than 30 and less than 89 days past due and their gross carrying amount is EUR 1,248 thousand, are secured with collateral in the form of other material assets amounting to EUR 245 thousand and with collateral in the form of irrevocable Slovenian government guarantees amounting to EUR 10 thousand.

Past-due claims resulting from loans, where the loans have been more than 90 and less than 180 days past due and their gross carrying amount is EUR 20 thousand, are secured with collateral in the form of other material assets amounting to EUR 32 thousand.

Past-due claims resulting from loans, where the loans are more than 180 days past due and their gross carrying amount is EUR 18,722 thousand, are secured with collateral in the form of commercial real estate amounting to EUR 991 thousand, other forms of collateral amounting to EUR 485 thousand, collateral in the form of other material assets amounting to EUR 188 thousand, and collateral in the form of residential real estate amounting to EUR 64 thousand.

Debt securities measured at fair value through other comprehensive income in accordance with the issuer's rating grade

	31 Dec 2020	31 Dec 2019
AA- to AA+	77,506	102,858
A- to A+	658,759	477,382
BBB+ to BBB-	111,947	59,217
Lower than BBB-	28,354	18,562
Total	**876,566**	**658,019**

The table shows the fair value of debt securities measured at fair value through other comprehensive income, classified in terms of the issuer's rating grade in accordance with SID Bank's methodology.

Credit risk from SID Bank's debt securities measured at fair value through other comprehensive income arises from the portfolio managed by SID Bank for the purpose of ensuring liquidity and managing the balance sheet.

SID Bank manages the credit risk from debt securities measured at fair value through other comprehensive income primarily by means of limits on exposure with regard to the issuer's rating grade, registered office location and type, and by monitoring changes to the market value of debt securities.

At the end of 2020, SID Bank's portfolio of debt securities, measured at fair value through other comprehensive income, rose to EUR 876,566 thousand, an increase of 33.2% relative to the end of 2019 (when it was EUR 658,019 thousand). The highest proportion of the entire portfolio (70.7% as at 31 December 2020; 69.5% at the end of 2019) comprises debt securities issued by EU Member States (central government) and classed as investment-grade (BBB- or higher). Slovenian government debt securities account for 41.2% (end of 2019: 47.2%) of the portfolio of debt securities measured at fair value through other comprehensive income. Changes to the overall structure of SID Bank's debt securities portfolio in 2020 in terms of credit rating relative to 2019, were primarily the result of an increase in exposure to EU Member States and non-bank issuers classed as investment-grade (BBB- or higher), banks with a rating of BBB+ to BBB-, and also the result of a decrease in exposure to banks with a credit rating of A- or higher.

A detailed breakdown of financial assets measured at fair value through other comprehensive income is given under section 2.4.3 Financial assets measured at fair value through other comprehensive income.

Breakdown of exposure to credit risk by geographical region

The tables illustrate the breakdown of net exposure to credit risk by geographical region as defined by the debtor's registered office.

31 Dec 2020	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets	**2,217,783**	**605,248**	**45,226**	**6,164**	**2,874,421**
Cash, cash balances at central banks and other demand deposits at banks	120,187	0	0	0	120,187
Financial assets mandatorily at fair value through profit or loss	11,105	6,660	0	0	17,765
Loans and advances to customers	11,105	6,660	0	0	17,765
Financial assets measured at fair value through other comprehensive income	389,578	483,812	3,176	0	876,566
Debt securities	389,578	483,812	3,176	0	876,566
Financial assets measured at amortised cost	1,696,913	113,623	42,050	6,164	1,858,750
Loans and advances to banks	645,211	106,632	31,882	0	783,725
Loans and advances to customers	1,050,981	6,483	10,167	6,164	1,073,795
Other financial assets	721	508	1	0	1,230
Hedging derivatives	0	1,153	0	0	1,153
Off-balance-sheet liabilities	**221,861**	**26,934**	**7,209**	**11,445**	**267,449**
Guarantees	71,108	0	0	0	71,108
Gross exposure	71,363	0	0	0	71,363
Provisions	(255)	0	0	0	(255)
Other off-balance-sheet liabilities	150,753	26,934	7,209	11,445	196,341
Gross exposure	153,179	26,934	7,215	11,949	199,277
Provisions	(2,426)	0	(6)	(504)	(2,936)
Total exposure	**2,439,644**	**632,182**	**52,435**	**17,609**	**3,141,870**

31 Dec 2019	Slovenia	Other EU Member States	Other Europe	Other countries	Total
Financial assets	1,956,241	382,692	40,464	8,932	2,388,329
Off-balance-sheet liabilities	214,310	17,033	15,440	11,374	258,157
Total exposure	**2,170,551**	**399,725**	**55,904**	**20,306**	**2,646,486**

At the end of 2020, SID Bank's exposure to the Slovenian government accounted for 77.6% (end of 2019: 82.0%) of total exposure from financial assets and off-balance-sheet liabilities, and increased by EUR 269,093 thousand relative to the end of 2019 due to an increase in financial assets, chiefly in loans and advances to customers, balances at the central bank and debt securities, and also due to an increase in off-balance-sheet liabilities.

At the end of 2020, exposure to other EU Member States accounted for most of the credit portfolio's exposure to the rest of the world, amounting to 20.1% (end of 2019: 15.1%) of the total exposure from financial assets and off-balance-sheet liabilities, and was up relative to the end of 2019 mainly as a result of an increase in debt securities of other EU Member States and foreign corporates and loans and deposits with foreign banks. At the end of 2020, credit risk exposure to the countries from the rest of Europe (Other Europe; without EU Member States) accounted for 1.7% of total exposure (2.1% at the end of 2019), while exposure to other countries accounted for 0.6% (end of 2019: 0.8%) of total exposure.

SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions. A detailed presentation of the greater credit risk exposure by individual country is given in separate tables.

Changes in the structure of SID Bank's exposures to specific countries as at 31 December 2020 were primarily due to an increase in the stock of foreign debt securities and loans and advances to domestic customers, and changes in exposure by country in terms of loans and advances to banks, where the stock of loans to domestic banks declined and the stock of loans to foreign banks increased.

	31 Dec 2020			31 Dec 2019		
	Financial assets	Off-balance-sheet liabilities	Total exposure	Financial assets	Off-balance-sheet liabilities	Total exposure
Slovenia	2,217,783	221,861	2,439,644	1,958,741	214,310	2,173,051
France	109,423	0	109,423	81,627	0	81,627
Spain	71,159	0	71,159	59,558	0	59,558
Germany	65,297	0	65,297	30,902	5,033	35,935
Italy	59,404	0	59,404	10,438	0	10,438
Poland	50,595	0	50,595	31,488	0	31,488
Austria	48,266	0	48,266	0	0	0
Netherlands	43,587	0	43,587	47,902	0	47,902
Hungary	40,361	0	40,361	9,454	0	9,454
Belarus	31,882	6,537	38,419	29,944	11,509	41,453
Czech Republic	30,873	0	30,873	25,671	0	25,671
Lithuania	28,480	0	28,480	7,999	0	7,999
Croatia	12,920	0	12,920	12,047	0	12,047
Belgium	11,867	0	11,867	10,866	0	10,866
Slovakia	10,359	0	10,359	23,499	0	23,499
Other	42,165	39,051	81,216	48,194	27,305	75,498
Total	**2,874,421**	**267,449**	**3,141,870**	**2,388,330**	**258,157**	**2,646,486**

Breakdown of credit risk exposure by sector

31 Dec 2020	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade (maintenance and repair of motor vehicles)	Transportation and storage	Professional, scientific and technical activities	Electricity, gas, steam and air conditioning supply	Other	Total
Financial assets	1,069,831	385,212	776,625	157,960	114,074	59,582	136,210	174,927	2,874,421
Cash, cash balances at central banks and demand deposits at banks	120,187	0	0	0	0	0	0	0	120,187
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	0	16,812	0	0	0	953	17,765
Loans and advances to customers	0	0	0	16,812	0	0	0	953	17,765
Financial assets measured at fair value through other comprehensive income	151,014	29,780	622,056	15,374	242	16,812	27,717	13,571	876,566
Debt securities	151,014	29,780	622,056	15,374	242	16,812	27,717	13,571	876,566
Financial assets measured at amortised cost	797,477	355,432	154,569	125,774	113,832	42,770	108,493	160,403	1,858,750
Loans and advances to banks	783,725	0	0	0	0	0	0	0	783,725
Loans and advances to customers	13,224	355,432	153,930	125,774	113,811	42,729	108,493	160,402	1,073,795
Other financial assets	528	0	639	0	21	41	0	1	1,230
Hedging derivatives	1,153	0	0	0	0	0	0	0	1,153
Off-balance-sheet liabilities	56,796	56,776	29,762	159	61,859	959	38,952	22,186	267,449
Guarantees	8,871	1,478	0	0	60,759	0	0	0	71,108
Gross exposure	8,891	1,500	0	0	60,972	0	0	0	71,363
Provisions	(20)	(22)	0	0	(213)	0	0	0	(255)
Other off-balance-sheet liabilities	47,926	55,297	29,762	159	1,100	959	38,952	22,186	196,341
Gross exposure	48,352	56,537	29,764	162	1,118	975	39,027	23,342	199,277
Provisions	(426)	(1,240)	(2)	(3)	(18)	(16)	(75)	(1,156)	(2,936)
Total	1,126,627	441,988	806,387	158,119	175,933	60,541	175,162	197,113	3,141,870

31 Dec 2019	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade (maintenance and repair of motor vehicles)	Transportation and storage	Professional, scientific and technical activities	Electricity, gas, steam and air conditioning supply	Other	Total
Financial assets	1,077,382	286,015	570,264	104,305	92,104	60,388	112,475	85,396	2,388,329
Off-balance-sheet liabilities	28,542	58,229	27,207	18,310	63,886	0	26,838	35,145	258,157
Total	1,105,924	344,244	597,471	122,615	155,990	60,388	139,313	120,541	2,646,486

The tables illustrate the breakdown of net exposure to credit risk by sector.

At the end of 2020, SID Bank was again most heavily exposed to financial and insurance activities, as the majority of its assets still comprise loans and advances to banks established in Slovenia, which transfer the funding thus obtained to the final beneficiaries. At the end of 2020, the proportion of exposure to financial and insurance activities declined and accounted for 35.9% (end of 2019: 41.8%) of the total exposure from financial assets and off-balance-sheet liabilities. The decrease in that proportion relative to the end of 2019 was primarily due to an increase in total exposure of financial assets and off-balance-sheet liabilities and a decrease in the stock of loans and advances to banks established in Slovenia. This was followed by exposure to the public administration and defence sector, with its proportion increasing to 25.7% at the end of 2020 (end of 2019: 22.6%). That increase was the result of an increase in exposure from debt securities and new loans to customers.

Exposure to manufacturing, wholesale and retail trade (maintenance and the repair of motor vehicles), electricity, gas, steam supply and other activities increased at the end of 2020 relative to 2019 as a result of new loans to customers and exposure from debt securities. The increase in exposure to transportation and storage was most notably impacted by loans and advances granted to customers.

Modified financial assets

In the event of modification to the contractual cash flows of a financial asset that do not result in its derecognition, SID Bank calculates the current value of the modified contractual cash flows using, as the discount rate, the effective interest rate at recognition, or the credit-adjusted effective interest rate in the case of POCI items. SID Bank adjusts the gross carrying amount of the financial asset by the amount of the difference established. SID Bank accrues the amount by which the gross carrying amount of the financial asset is adjusted as a result of a modification to contractual cash flows for the entire remainder of the lifetime of the financial asset and discloses it in profit or loss as interest income.

The number of contractual cash flows that were modified and did not result in the derecognition of the financial asset increased in 2020. The majority of the modifications to contractual cash flows derives from the intervention measure introducing a statutory loan moratorium as a result of the COVID-19 pandemic.

A loss was recognised in profit or loss in the total amount of EUR 629 thousand in response to the modification to contractual cash flows in the case of 58 financial assets, while gains in the amount of EUR 44 thousand were recognised in the case of 78 financial assets.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	2020	2019
Gross carrying amount before modification	115,388	10,163
Loss allowance before modification	(28,157)	(2,434)
Net amortised cost before modification	87,231	7,729
Net loss from the modification	(302)	(65)
Net amortised cost after modification	86,929	7,664

The table shows the effects of the modification to the contractual cash flows of financial assets in 2020, where SID Bank measures credit loss allowances on the basis of lifetime expected credit losses on the financial instrument (financial assets are assigned to Stage 2, Stage 3 or as POCI items), and the modifications did not result in the derecognition of the financial asset.

Financial assets modified since initial recognition at a time when loss allowance based on lifetime ECL	2020	2019
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL	1,793	0

The table shows the gross carrying amount of financial assets, where the enhancement of the credit quality of financial assets in the period following the modification of contractual cash flows led to a change in the calculation of expected credit losses. Before the modification to contractual cash flows, credit loss allowances were measured on the basis of lifetime expected credit losses on the financial instrument (financial assets were assigned to Stage 2 or Stage 3), while in the period following the modification to contractual cash flows these allowances began to be calculated on the basis of 12-month expected credit losses (financial assets were reclassified to Stage 1) due to enhancement in credit quality. Modifications to contractual cash flows did not result in the derecognition of financial assets.

Counterparty credit risk

Market interest rates and yield curves are taken into consideration when valuing derivatives. As the market interest rates and yield curves used for the valuation of derivatives contain no counterparty credit risk, credit valuation adjustment (CVA) is calculated for that purpose. CVA represents a value adjustment of the derivative for the counterparty credit risk and is defined as the difference between the value of a financial instrument without the credit risk taken into account and the value with the credit risk taken into account. For a valuation adjustment, counterparty credit risk (CVA) must be taken into account on the one hand and own credit risk on the other hand. SID Bank does not calculate its own credit risk. CVA is calculated on a monthly basis for each derivatives transaction. Any collateral is also taken into consideration in the calculation.

SID Bank only concludes transactions outside the regulated stock market (OTC transactions) with banks with which it concluded a framework agreement on transactions in derivatives (ISDA Master Agreement). For the purpose of mitigating counterparty credit risk in derivatives transactions, the Bank has signed a credit support annex (CSA) as a legal supplement to the master agreement, based on a system of providing cash margins through the exchanges of collateral depending on the daily fair value of the derivative.

The Bank carries out daily monitoring of counterparty credit risk on the basis of the fair value of the derivative. If adverse changes in the fair value of the derivative result in insufficient coverage of exposure by collateral for a counterparty, the Bank asks that counterparty to provide additional collateral. SID Bank agreed on cash deposits as collateral with counterparties with whom it concluded derivatives transactions in 2020.

SID Bank recognises the calculated CVA amount in profit or loss in months in which the total amount of the calculated CVA for all derivatives exceeds 10 basis points of the last total risk exposure amount, as per Article 92(3) of the CRR.

The CVA for SID Bank was EUR 0 as at 31 December 2020.

3.2 Liquidity risk

Liquidity risk is the risk of a loss occurring when a bank is unable to settle all of its maturing liabilities, or when a bank is obliged to obtain sources of liquidity at costs significantly higher than average market costs due to its inability to provide sufficient funding to settle its liabilities at maturity. The greater the mismatch between flows of interest and principal on the asset side and the liability side, and in off-balance-sheet items, the higher the risk of illiquidity.

Liquidity risk in the narrower sense arises when a bank is unable to repay its liabilities via investment operations. 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 undertake additional borrowing at a higher interest rate, and the risk that a bank will be compelled to sell non-monetary investments at a discount as a result of the need for liquidity. Given the level and structure of secondary liquidity, a significant proportion of which consists of government securities and other high-quality and highly liquid securities, this risk is assessed as low at SID Bank.

By managing liquidity risk, SID Bank ensures the regular settlement of all monetary liabilities, the maintenance of sufficient liquid funds, the high-quality management of operational and structural liquidity, and the fulfilment of legal and regulatory requirements.

Take-up and management of liquidity risk

SID Bank takes up liquidity risk in accordance with the business strategy, its risk absorption capacity and its risk appetite and the risk management strategy, with the primary objective of ensuring the prudent and secure operations of the Bank. Liquidity management includes the prudent management of assets and liabilities (on-balance-sheet and off-balance-sheet) and a balanced borrowing strategy so that the Bank is capable of meeting its due liabilities (liquidity) at any given moment and in due time, and is capable of meeting all its liabilities (solvency) on a continuous basis.

The process of the take-up and management of liquidity risk is conducted in line with the adopted liquidity risk management policy, which is discussed and adopted at least once a year by the Bank's management body. The Bank's management body discusses and adopts the report on the internal liquidity adequacy assessment process (ILAAP) on an annual basis. The liquidity risk management action plan includes the framework for the management of liquidity and the securing of funding, procedures for identifying, measuring and managing liquidity risk, including the methods used to monitor and report on the Bank's liquidity position, and procedures for carrying out liquidity risk management measures. Exposure to liquidity risk is discussed and monitored on a regular basis through weekly and monthly reports at the asset-liability and liquidity management committee, and through quarterly reports at meetings of the management body.

The scope of the take-up of liquidity risk is monitored annually by the management body as part of the process of adopting the business strategy, the assessment of the risk absorption capacity and the risk management strategy.

The Bank defines an adequate liquidity position or adequate level of liquidity buffer and stable funding structure through the adopted liquidity risk appetite, and particularly through the setting of a minimum liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), and through the strategic indicator of the proportion of total assets accounted for by liquid assets. The liquidity risk management policy and its associated bylaws define additional quantitative limits and measures on the basis of which the Bank manages the take-up of liquidity risk.

The liquidity risk management policy also envisages procedures and responsibilities of the competent committees and relevant organisational units in the area of liquidity risk management, and the range of possible measures to be taken if operational or structural liquidity deteriorates and/or the internally set limits are exceeded.

The Bank presents the key responsibilities of the competent bodies in the area of risk management, the risk management functions and the individual organisational units in the introduction to section 3 Risk management. The asset-liability and liquidity management committee is responsible for deciding on proposals regarding liquidity risk management, and the approval, guidance and supervision of the implementation of the liquidity policy and treasury investment policy. The risk management department drafts and, at least once a year, reviews and proposes any changes to the liquidity risk management policy in accordance with the Bank's risk profile, the adopted business policy and the liquidity risk appetite. It also ensures the regular briefing of the management body on the Bank's exposure to liquidity risk. The treasury department is responsible for managing, achieving and maintaining daily liquidity, concluding transactions for the purpose of managing liquid assets and carrying out borrowing activities within the context of the adopted policy of taking up and managing liquidity risk, the authorisations put in place and the decisions of the competent bodies. It is actively involved in the process of assessing the internal liquidity adequacy of the Bank.

In addition to measuring and monitoring the liquidity position, liquidity ratios and regulatory ratios in the area of liquidity, liquidity risk management at SID Bank also includes, in particular, the regular planning and monitoring of liquidity flows, including an assessment of the impacts of new transactions on the liquidity ratio, and the regular verification of the Bank's liquidity position and the scope of liquidity reserves for the coming period in both the baseline scenario and taking into account internally defined liquidity scenarios. Strict daily monitoring of operational liquidity is provided for, while liquidity is ensured through the management of assets, particularly liquidity reserves, and/or through access to additional sources. With the aim of raising additional reserves of daily liquidity from the central bank, SID Bank has a portfolio of securities permanently available to serve as collateral for such claims. The Bank manages structural liquidity through the assessment of its long-term liquidity position.

Borrowing activities are based on SID Bank's business strategy and the annual financial borrowing plan, which is drafted as part of the annual operational plan in the annual strategic planning process. The purpose of borrowing is to ensure appropriate funding for the execution of SID Bank's asset-side transactions. Adequacy is assessed with regard to maturity, currency, interest-rate type, costs of borrowing and any other characteristics. SID Bank borrows for the purposes set out in the ZSIRB.

SID Bank measures, supervises and monitors exposure to liquidity risk on the basis of the daily calculation of liquidity ratios in the manner prescribed by the Bank of Slovenia. The liquidity ratio is the ratio between the sum of financial assets in domestic and foreign currency and the sum of liabilities in domestic and foreign currency with regard to residual maturity. The recommended limit for the first-bucket liquidity ratio (0 to 30 days) is at least 1, while the second-bucket liquidity ratio (0 to 180 days) is merely informative in nature. SID Bank maintains the first- and second-bucket liquidity ratios above the recommended threshold on a daily basis. The Bank also has internal liquidity ratios that are higher than those recommended by the law, which provides additional security. SID Bank's liquidity risk management policy also defines the procedures for taking action in the event that the internally set minimum liquidity ratio values are achieved.

	Minimum value	Average value	31 Dec 2020
LR (0-30)	2.1	5.2	5.5
LR (0-180)	2.1	4.5	3.6

The minimum level of daily values for the first-bucket liquidity ratio for all currencies amounted to 2.1 in 2020 (2019: 2.3). SID Bank maintained the first- and second-bucket liquidity ratios above the recommended threshold on a daily basis in 2020.

SID Bank calculates the value of the liquidity coverage ratio (LCR) on a monthly basis and the net stable funding ratio (NSFR) on a quarterly basis. The calculated ratios, the changes over time and the compliance of the above ratios with the adopted internal limits are discussed on a regular basis by the asset-liability and liquidity management committee.

All liquidity ratios were maintained at hight levels and above the internal and regulatory limits at the end of 2020.

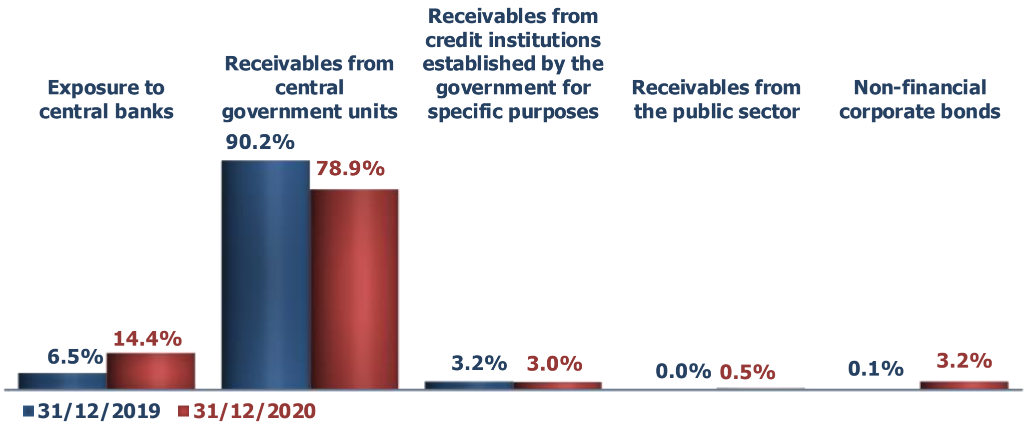
The net stable funding ratio focuses on constraining banks in their transformation of maturity structure and at the end of 2020 amounted to 132% (end of 2019: 140%). The mandatory, regulatorily defined fulfilment of the ratio is enforced as of 30 June 2021.

The aim of the liquidity coverage ratio (LCR) is to prevent liquidity risk by reducing credit institutions' dependence on short-term funding and liquidity provided by central banks, by introducing a requirement for banks to hold sufficient liquid assets to handle any surplus of liquid outflows over inflows that could be expected to occur over a 30-day stress period. At the end of 2020, the liquidity coverage ratio amounted to 6,313% (end of 2019: 1,832%).

In the Disclosures section, the Bank discloses, pursuant to Part Eight of the CRR, additional qualitative and quantitative information in accordance with the EBA guidelines on liquidity coverage ratio (LCR) disclosure in order to complement the disclosure of liquidity risk management under Article 435 of the CRR.

SID Bank actively monitors and maintains an adequate buffer of unencumbered, high-quality liquid assets to be held as a contingency against adverse liquidity conditions.

Structure of liquidity buffer (after deduction)



As at 31 December 2020, the liquid assets eligible for inclusion in the LCR calculation amounted to EUR 424,164 thousand, after haircuts had been taken into account (2019: EUR 252,143 thousand), with the liquid assets of central government units accounting for 78.9% (2019: 90.2%) of all eligible liquid assets after haircuts had been taken into account. The proportion of Level 1 high-quality liquid assets (HQLA) amounted to 96.8% at the end of 2020 (2019: 99.9%).

SID Bank generally does not accept deposits from uninformed investors and is therefore not exposed to any potential outflows arising from retail and corporate deposits in the event of adverse liquidity conditions. This fact and the specific role of the Bank also affect the structure of the funding and mean that there is higher concentration with regard to funding than is the case with commercial banks. SID Bank obtains funding on the domestic and foreign financial markets. The diversification of funding, particularly in terms of investor type, geography and the type of financial instrument, ensures that SID Bank has stable access to funding. The fact that SID Bank obtains long-term funding supported by Slovenian government guarantees mainly on international financial markets and at related financial institutions increases the stability of the Bank.

SID Bank uses internal rules that provide a framework for contingent liquidity risk management. The contingent liquidity risk management framework comprises the following elements:

- procedures for the early identification of possible liquidity shortfalls;
- the contingent liquidity risk management plan and the responsibilities for resolving liquidity crises;
- the criteria for activating the contingent liquidity risk management plan;
- the set of possible measures for resolving a liquidity crisis;
- early warning indicators for adverse liquidity conditions; and
- the implementation of internal liquidity stress scenarios.

SID Bank regularly verifies the adequacy of liquidity reserves in internally defined stress scenarios, which represent various adverse conditions (market scenarios), in an institution-specific scenario and in a combined scenario, which is defined as a combination of the institution-specific scenario and the most adverse market scenario.

As part of the briefing process at competent committees, SID Bank regularly monitors:

- the trend in SID Bank's performance indicators;
- the trend in macroeconomic indicators;
- events on financial markets;
- liquidity indicators, the liquidity coverage ratio and the net stable funding ratio;
- planned and realised liquidity flows;
- early warning indicators for adverse liquidity conditions; and
- the results of the implementation of internal liquidity scenarios, and the results of liquidity simulations, with an assessment of liquidity flows and the impact on the stock of liquidity reserves for the coming period in the baseline scenario and in internally defined liquidity scenarios.

By regularly monitoring the liquidity position, ratios and indicators, and by verifying liquidity risk management in internally defined scenarios, the Bank is able to identify adverse liquidity conditions in a timely manner and take appropriate measures to overcome any liquidity difficulties.

Internal liquidity adequacy assessment process (ILAAP)

Through regular implementation of the internal liquidity adequacy assessment process (ILAAP), SID Bank ensures the effectiveness of liquidity risk management and the adequacy of the Bank's liquidity relative to its risk profile. The process includes an assessment of liquidity needs and available liquidity within the context of regular operations and of the business strategy for the coming period or the annual operational plan. The Bank's liquidity position is verified on a regular basis by the competent committees through the monitoring of various indicators, including in relation to achievement of the planned indicators. The Bank regularly carries out an assessment of the adequacy of funding, with activities particularly focused on the annual planning of business needs, where the Bank defines the funding policy for the current planning period.

Once a year, the Bank carries out, in a comprehensive and structured manner in the ILAAP report, a review and assessment of the Bank's liquidity profile in terms of the following key elements: risk management in respect of the Bank's liquidity profile and liquidity risk appetite, the effectiveness of the organisational structure and the adequacy of the liquidity buffer, including in relation to the internally defined scenarios and the contingency plan in place. The ILAAP report also serves as a basis for supervisory reviews and the evaluation of the Bank's liquidity risk.

Exposure to liquidity risk

31 Dec 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**238,076**	**64,075**	**330,364**	**1,217,541**	**1,125,548**	**2,975,604**
Cash, cash balances at central banks and other demand deposits at banks	120,187	0	0	0	0	120,187
Non-trading financial assets mandatorily at fair value through profit or loss	0	261	18,880	258	811	20,210
Loans and advances to customers	0	261	18,880	258	811	20,210
Financial assets measured at fair value through other comprehensive income	43,835	37,540	92,653	320,665	376,056	870,749
Debt securities	43,835	37,540	92,653	320,665	376,056	870,749
Financial assets measured at amortised cost	73,503	26,274	219,520	897,968	748,681	1,965,946
Loans and advances to banks	55,603	11,365	130,423	382,275	223,010	802,676
Loans and advances to customers	17,721	14,384	89,097	515,675	525,163	1,162,040
Other financial assets	179	525	0	18	508	1,230
Hedging derivatives	551	0	(689)	(1,350)	0	(1,488)
Financial liabilities	**2,852**	**13,379**	**102,276**	**1,201,623**	**1,150,295**	**2,470,425**
Financial liabilities measured at amortised cost	2,852	13,260	102,248	1,201,202	1,150,126	2,469,688
Deposits from banks and central banks	(1)	(1)	(2)	1,249	0	1,245
Loans from banks and central banks	19	13,239	97,068	590,303	201,715	902,344
Loans from customers	0	0	1,784	126,140	748,142	876,066
Debt securities	0	0	3,398	483,506	200,250	687,154
Other financial liabilities	2,834	22	0	4	19	2,879
Hedging derivatives	0	119	28	421	169	737
Liquidity gap	**235,224**	**50,696**	**228,088**	**15,918**	**(24,747)**	**505,179**
Off-balance-sheet liabilities	**28,120**	**24,175**	**73,311**	**136,143**	**8,891**	**270,640**
31 Dec 2019						
Liquidity gap	**169,352**	**50,744**	**212,745**	**452,118**	**(373,470)**	**511,489**

The table illustrates cash flows from on- and off-balance-sheet items by expected maturity on the statement of financial position date, taking into account future interest. Expected cash flows in connection with both individually and collectively impaired loans comprise expected cash flows and not contractual cash flows. Cash flows from the payment of interest on the fixed and variable parts of derivatives used for hedging are settled in net amounts. Expected cash flows from off-balance-sheet liabilities are estimated according to an internal methodology.

SID Bank disclosed a positive liquidity gap in the time bucket of up to one year as at 31 December 2020. Changes in the structure of liquidity gaps in terms of maturity buckets are also associated with the Bank's COVID-19 pandemic-related activities in 2020, i.e. with increased lending to customers, drawing down a loan from ECB's third series of targeted longer-term refinancing operations (TLTRO III) and issue of COVID-19 bonds on international financial markets.

SID Bank manages liquidity risk through its activities for obtaining funding of the appropriate maturities, by adjusting the maturities of asset and liability items and maintaining a suitable level and quality of the liquidity buffer, with debt securities accounting for the majority of this buffer.

SID Bank is 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 two years. At the end of 2020, the reserve requirement was EUR 0.

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 the economic value of equity. Exposure to interest rate risk derives primarily from interest-sensitive assets with different maturities and a different repricing dynamic compared with interest-sensitive liabilities (income aspect). Another element of interest rate risk is the sensitivity of the fair value of assets, liabilities and off-balance-sheet items to changes in interest rates (economic aspect).

On the asset side, SID Bank is exposed to interest rate risk from debt securities measured at fair value through other comprehensive income, loans given, and the balance in the settlement account and in commercial accounts. On the liability side, it is exposed to interest rate risk from loans received and debt securities issued.

Identifying, measuring, managing and monitoring interest rate risk are carried out in accordance with the current interest rate risk management policy, which is based on the Basel standards for managing interest rate risk in the banking book and the EBA Guidelines on the management of interest rate risk arising from non-trading book activities. The Bank’s interest rate risk management policy defines the methods and assumptions for identifying and measuring interest rate risk, and scenarios for measuring interest-rate sensitivity. The interest rate risk management policy also defines the responsibilities of individual organisational units in the area of interest rate risk management, and procedures in the event that internally set limits are exceeded. The Bank’s management body (management board and supervisory board) reviews and adopts the interest rate risk management policy at least once a year.

Interest rate risk management is defined by the adopted risk appetite and the established interest rate risk management policy. The level of interest rate risk has been mitigated through the introduction of a limit system and the determination of the internal capital requirements. The Bank has a limit system in place for mitigating interest rate risk via interest rate gaps. Limits have been put in place on changes to the economic value of equity and net interest income.

In the event of an increase in exposure to interest rate risk evident from an increase in interest rate gaps, the treasury department proposes measures to mitigate interest rate risk, which are approved and adopted by the asset-liability and liquidity management committee. Through the regular application of the interest rate management process, SID Bank succeeds in maintaining interest rate risk within acceptable limits and within the risk appetite as adopted.

SID Bank manages exposure to interest rate risk through the coordination of interest-sensitive assets and interest-sensitive liabilities in accordance with their maturity and the level and method of setting interest rates, and through the use of derivatives to hedge against interest rate risk.

To manage interest rate risk, the Bank conducts transactions in derivatives. If the derivatives meet the conditions, these are dealt with by applying hedge accounting with the aim of achieving the lower volatility of profit or loss resulting from changes to the fair value of derivatives. The Bank has internal documents in place that describe the relationship between the hedged item and the hedging instrument, the purpose of risk management, the valuation method and the hedging strategy. The Bank also has documented assessments of the effectiveness of hedging relationships compiled upon the conclusion of transactions, and regularly conducts assessments of the effectiveness of hedging relationships.

As at 31 December 2020, SID Bank held two interest rate swaps as fair value hedges of assets with a total contractual value of EUR 15,000 thousand and two interest rate swaps as fair value hedges of liabilities with a total contractual value of EUR 175,000 thousand. All hedging relationships were effective under hedge accounting rules at the end of 2020.

The Bank is exposed to interest rate risk that derives in particular from timing mismatches in interest rate repricing, where exposure to interest rate risk in the banking book derives in particular from the portfolio of long-term debt securities and loans granted with a fixed interest rate on the asset side, and issued securities and loans received with a fixed interest rate on the liability side.

SID Bank measures exposure to interest rate risk that derives from the mismatch of interest-sensitive items in the banking book based on interest rate gaps and an analysis of interest sensitivity. Interest rate gaps illustrate the difference between the cash flows of interest-sensitive assets and interest-sensitive liabilities by time bucket, applying the principle of classifying interest-sensitive on-balance-sheet items into time buckets according to residual maturity for items with a fixed interest rate and with regard to the first repricing for items with a variable interest rate.

When interest-sensitive items are classified, they are itemised by currency. Due to low exposure in foreign currencies, interest-sensitive items in foreign currencies are added to items in euros. The Bank does not accept demand deposits from the public and therefore does not use an internal model or assumptions for non-maturing deposits.

SID Bank has an internal methodology in place for measuring changes on the economic value of equity in the prescribed interest rate scenarios, including the valuation of embedded automatic interest rate options, based on the standardised approach in accordance with Basel standards for the management of interest rate risk in the banking book, and taking into account the provisions of the EBA guidelines on the management of interest rate risk arising from non-trading book activities. In 2020 the Bank updated the internal methodology used to include interest-rate-sensitive off-balance-sheet items in the measurement of interest rate risk and methodology for calculating the impact of changes in market interest rates on net interest income. The measurement of impact on net interest income is thus carried out over a one-year period in six prescribed interest-rate scenarios on the basis of a constant balance sheet, taking into account the original characteristics of individual items. To that end, the Bank in 2020 included the embedded automatic interest rate options also in the interest income measure.

On a monthly basis, the asset-liability and liquidity management committee discusses exposure to interest rate risk, including an analysis of interest rate gaps and an analysis of interest sensitivity. The management body discusses exposure to interest rate risk quarterly in the scope of the risk report.

Exposure to interest rate risk for on-balance-sheet and off-balance-sheet financial instruments

The table shows financial assets and liabilities with respect to residual maturity for items with a fixed interest rate and with regard to the first repricing for items with a variable interest rate, whereby debt securities are considered at fair value and loans at the net carrying amount. The effect of hedging derivatives is shown in the amount of the face value of concluded interest rate swaps.

31 Dec 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Non-remunerated items	Total
Financial assets	**484,039**	**366,678**	**1,085,206**	**328,941**	**607,174**	**2,872,038**	**25,202**	**2,897,240**
Cash, cash balances at central banks and other demand deposits at banks	120,187	0	0	0	0	120,187	0	120,187
Non-trading financial assets mandatorily at fair value through profit or loss	6,209	11,556	0	0	0	17,765	17,432	35,197
Financial assets measured at fair value through other comprehensive income	74,679	37,605	73,121	290,873	400,288	876,566	6,540	883,106
Financial assets measured at amortised cost	282,964	317,517	1,012,085	38,068	206,886	1,857,520	1,230	1,858,750
Loans and advances to banks	79,518	106,893	559,299	6,830	31,185	783,725	0	783,725
Loans and advances to customers	203,446	210,624	452,786	31,238	175,701	1,073,795	0	1,073,795
Other financial assets	0	0	0	0	0	0	1,230	1,230
Financial liabilities	**567,430**	**252,678**	**824,652**	**479,975**	**296,939**	**2,421,674**	**2,879**	**2,424,553**
Financial liabilities measured at amortised cost	567,430	252,678	824,652	479,975	296,939	2,421,674	2,879	2,424,553
Deposits from banks	1,259	0	0	0	0	1,259	0	1,259
Loans from banks and central banks	407,131	71,775	394,802	0	35,003	908,711	0	908,711
Loans from customers	159,040	180,903	429,850	0	62,584	832,377	0	832,377
Debt securities	0	0	0	479,975	199,352	679,327	0	679,327
Other financial liabilities	0	0	0	0	0	0	2,879	2,879
Effect of hedging derivatives	**(170,000)**	**0**	**10,000**	**170,000**	**(10,000)**	**0**	**0**	**0**
Interest rate sensitivity gap	**(253,391)**	**114,000**	**270,554**	**18,966**	**300,235**	**450,364**	**22,323**	**472,687**

31 Dec 2019	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Non-remunerated items	Total
Financial assets	408,200	363,733	852,298	395,656	363,181	2,383,068	16,566	2,399,634
Financial liabilities	214,445	269,627	904,884	302,269	244,510	1,935,735	2,727	1,938,462
Effect of hedging derivatives	5,000	0	10,000	(5,000)	(10,000)	0	0	0
Interest rate sensitivity gap	**198,755**	**94,106**	**(42,586)**	**88,387**	**108,671**	**447,333**	**13,839**	**461,172**

Sensitivity analysis

SID Bank regularly measures its sensitivity to interest rate changes by measuring the impact on the economic value of equity and net interest income. When conducting a sensitivity analysis, the Bank uses the prescribed interest rate scenarios, taking account of the prescribed interest rate floor in interest rate downward shifts.

Analysis of the sensitivity of interest-rate-sensitive asset and liability items is made under the assumption of a sudden change in market interest rates in individual prescribed interest rate scenarios.

The economic value of equity measures the change in the net present value of interest-rate-sensitive items of the banking (non-trading) book over their remaining lifetime, which is the result of changes in interest rate and is calculated as the difference between the economic value of equity in the interest rate baseline scenario and in a specific interest rate scenario.

The Bank measures impact of changes in interest rates on net interest income over a one-year period on the basis of maintaining a static balance sheet with the inclusion of reinvestment or refinancing (constant balance sheet assumption). Any change in net interest income in a specific interest rate scenario is measured relative to the baseline interest rate scenario.

Had market interest rates risen by 200 basis points, SID Bank's net interest income would have decreased in one year by EUR 1,799 thousand according to data from the end of

2020. That change would have been reflected in the income statement. Were market interest rates to fall by 200 basis points, SID Bank's net interest income would have decreased in one year by EUR 45 thousand according to data from the end of 2020. The results in case of a downward interest rate shock were disproportionate, as these shocks, in the context of using the prescribed interest rate floor, were limited and unlike upward shocks.

The Bank measured changes in the economic value of equity in the prescribed interest rate scenarios as at 31 December 2020 in accordance with its internal methodology. According to data from the end of 2020, the results show that the Bank would incur the most severe decrease in the economic value of equity in the scenario of a parallel shift in interest rates by +200 basis points, by EUR 24,087 thousand (according to data from the end of 2019: EUR 16,661 thousand), accounting for 5.3% of the capital for capital adequacy purposes the needs of capital adequacy. Were market interest rates to fall by 200 basis points, the Bank's economic value of equity would have increased by EUR 2,980 thousand according to data from the end of 2020. The Bank takes account of the prescribed interest rate floor in interest rate downward shifts.

The Bank will continue to upgrade its methodology for identifying and measuring interest rate risk in 2021 with the ultimate objective of complete harmonisation with the EBA guidelines on the management of interest rate risk arising from non-trading book activities.

3.4 Currency risk

Currency risk is the risk of a loss arising from adverse changes in exchange rates.

SID Bank identifies, measures, manages and monitors currency risk in accordance with the adopted currency risk management policy. The management body discusses and adopts the currency risk management policy at least once a year. The implementation of the policy is monitored and supervised by the asset-liability and liquidity management committee. The management body discusses exposure to currency risk quarterly in the scope of the risk report.

When taking up and managing currency risk, SID Bank takes into account the adopted currency risk appetite. The process of managing currency risk includes both the setting of internal limits and also the regular measurement, monitoring and reporting of exposure to currency risk on the basis of the calculation of the overall net position in foreign currencies.

The Bank manages exposure to currency risk chiefly by matching asset and liability positions in foreign currencies and trading in derivatives in significant foreign currencies.

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 net foreign exchange position, which is the difference between the sums of all assets and liabilities in foreign currencies. The Bank has a limit system in place for limiting currency risk via limits on open net foreign exchange positions.

The daily open net foreign exchange position in 2020 and at the end of 2020 was low and within the internally set limits, which is evident from the table below.

Neither the transactions executed by SID Bank in foreign currencies are materially significant nor pose a currency risk. Owing to the low level of exposure to currency risk, SID Bank does not carry out analyses of currency sensitivity.

The table below illustrates SID Bank's exposure to currency risk and includes on-balance-sheet and off-balance-sheet financial instruments by carrying amount and currency.

Exposure to currency risk for on-balance-sheet and off-balance-sheet financial instruments

31 Dec 2020	EUR	USD	Other currencies	Total
Financial assets	**2,891,565**	**6,826**	**2**	**2,898,393**
Cash, cash balances at central banks and other demand deposits at banks	119,504	681	2	120,187
Non-trading financial assets mandatorily at fair value through profit or loss	35,197	0	0	35,197
Financial assets measured at fair value through other comprehensive income	883,106	0	0	883,106
Financial assets measured at amortised cost	1,852,605	6,145	0	1,858,750
Loans and advances to banks	783,725	0	0	783,725
Loans and advances to customers	1,067,650	6,145	0	1,073,795
Other financial assets	1,230	0	0	1,230
Hedging derivatives	1,153	0	0	1,153
Financial liabilities	**2,417,632**	**7,983**	**25**	**2,425,640**
Financial liabilities measured at amortised cost	2,416,545	7,983	25	2,424,553
Deposits from banks	1,259	0	0	1,259
Loans from banks and central banks	900,729	7,982	0	908,711
Loans from customers	832,377	0	0	832,377
Debt securities	679,327	0	0	679,327
Other financial liabilities	2,853	1	25	2,879
Hedging derivatives	1,087	0	0	1,087
Net on-balance-sheet position	**473,933**	**(1,157)**	**(23)**	**472,753**
Irrevocable commitments given (net amount)	**267,449**	**0**	**0**	**267,449**
31 Dec 2019				
Financial assets	2,389,353	10,280	1	2,399,634
Financial liabilities	1,928,989	10,287	28	1,939,304
Net on-balance-sheet position	**460,364**	**(7)**	**(27)**	**460,330**
Irrevocable commitments given (net amount)	**258,157**	**0**	**0**	**258,157**

3.5 Operational risk

Operational risk arises as a result of inadequate or failed internal processes, people and systems, or from external events not arising from credit, market or liquidity risk. Operational risk also includes IT risks, legal risks and risks associated with compliance, but does not include strategic risk or reputation risk. An element of legal risk is compliance risk, which is 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 main regulations and standards of good practice.

Operational risk 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.

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 carried out on a regular basis, and investment in information technology. The Bank continually endeavours to improve the culture of awareness among management and other employees of the importance of effective management of operational risk, which is present in all activities and processes relating to operations.

Operational risk management is upgraded on an annual basis, in particular from the internal point of view (internal procedures, processes, the provision of suitable information support, monitoring and other regulatory requirements). The Bank is aware of the risk of fraud, money laundering/terrorist financing and cyber threats, and has thus also strengthened the management of these subcategories of operational risk.

The system for managing operational risk includes the recording of loss events in the software database, and the analysis and resolution thereof with the aim of effectively identifying, assessing and managing operational risk. Control of the entered loss events is carried out by the risk management department, which regularly reports to the management board and supervisory board on their numbers, on any loss valuation, and on proposed measures for reducing the likelihood of the repetition of an individual loss event. Quarterly reports on loss events arising from operational risk are also submitted to the Bank of Slovenia. In the case of a loss event involving significant losses, SID Bank is obliged to notify the supervisory board and the Bank of Slovenia immediately and to submit all relevant documentation.

In accordance with Article 324 of the CRR, SID Bank has defined the following categories of loss events:

- internal fraud;
- external fraud;
- practices in connection with employment and occupational safety;
- clients, products and business practices;
- losses on movable property and real estate;
- business disruptions and system failures; and
- execution, delivery and process management.

During 2020, SID Bank upgraded its management of operational risks and strengthened its operational risk management culture.

In terms of the category of loss events in line with the Basel standards, the most common loss events in 2020 were execution, delivery and process management (57% of all loss events), followed by business disruption and systems failures (18%), clients, products and business practices (12%), external fraud (11%) and damage to movable property and real estate (2%). There were no loss events involving significant losses in 2020.

SID Bank recorded COVID-19 as the most significant loss event in 2020. The Bank recorded the costs incurred in connection with the elimination of the difficulties that arose due to the pandemic.

In addition to the realised loss, COVID-19 had an effect on potential operational risk, as SID Bank was forced into rapid transition to intervention measures, resulting in adjustments to its products, programmes and certain processes.

With the aim of mitigating operational risk and increasing transparency, SID Bank recorded all temporary and specific changes to business processes as a response to the pandemic in a single bylaw.

The Bank uses a basic indicator approach for calculating capital requirements for operational risk in line with the provisions of the CRR.

SID Bank assesses operational risk annually by developing a risk profile for the Bank or assessing the risk matrix on the basis of selected elements. SID Bank considers elements in the area of information support, business continuity, the effect of new product launches, outsourcing and the employment rate for company positions as the key elements in the assessment of the materiality of operational risk within the scope of the ICAAP.

By conducting internal audits, the internal audit department ensures the independent and impartial assessment of the internal governance arrangements, including risk management systems and processes and internal controls. In order to improve operations and add value, internal audits are carried out of all areas, business activities, processes and functions of SID Bank in line with the Bank's risk profile and the annual internal audit work plan.

The systemic risks entailed by information technology, which are increasing as the level of computerisation increases, are managed by additional measures such as the business continuity plan, the duplication of critical infrastructure and other measures to increase information security (advanced systems to prevent and detect hacking, incident-management security systems, staff training). The implementation of the business continuity plan is assigned to groups of employees formed in advance (emergencies group, operational security group, first aid and rescue group and asset remediation group). The members of these groups also collaborate in the procedure for amending the business continuity plan.

SID Bank has in place an information security function that monitors and controls information security procedures to prevent unauthorised access to information in storage, being processed or being transferred, and to prevent changes to information. One of the duties of the information security officer is to manage security incidents or potential security incidents. Together with the IT department, the information security officer draws up quarterly reports for the management board on the state of information security at the Bank, and heads a security information team that handles specific security issues and policies. At least once a year, the information security officer also produces an analysis of all security incidents based on records of loss events, and proposes appropriate measures in response.

In the event of a cyber incident that constitutes an unwanted or unexpected information security event or a series of such events that could harm operations and threaten information security, employees who detect or suspect that a cyber incident has occurred must immediately notify the information security officer and/or the director of the IT department. They assume responsibility for processing the incident and for reporting it to the Bank of Slovenia, in line with the Bank of Slovenia's requirements relating to reporting on significant cyber incidents.

In managing operational risk, SID Bank takes account of the outsourcing policy and the outsourcing guidelines, the purpose of which is to create a framework for the selection, establishment, implementation and monitoring of contractual relationships with external providers, to prevent inconsistencies, inequalities, ambiguities and imbalanced risk management when outsourcing, and thus the possible adverse consequences on the operations of SID Bank, and to ensure an adequate level of professionalism of outsourced services at SID Bank, monitor the implementation of those services and manage the risk arising from outsourcing. The risk management department carries out a semi-annual assessment of service providers, and drafts an annual review of the management of service providers, compiles an annual report and proposes measures. After receiving the management board's approval, the supervisory board is briefed on the report, which is then forwarded to the Bank of Slovenia.

In accordance with outsourcing guidelines, SID Bank completely overhauled the process of managing outsourcing risks, adopted new bylaws and increased the standardisation of the process in 2019. SID Bank's activities in this area included the upgrading of the register of service providers and standard questionnaires that assist employees in the analysis of outsourced functions and the assessment of risks connected with service providers. With regard to the management of outsourcing risks, SID Bank also updated its assessment of risks in the areas of compliance and information security. During 2020, SID Bank ensured compliance with the outsourcing guidelines, at minimum for all new and amended contracts. SID Bank plans to ensure compliance for all other contracts by the end of 2021.

Outsourcing at SID Bank during 2020 was carried out, for the most part, in line with expectations. COVID-19 caused increased risk and the additional solidification of the control environment, where SID Bank regularly monitored the operation of service providers and established active communication with these contractors via its customer relationship managers. No disruptions were detected in the outsourcing that could be directly linked to the COVID-19 outbreak. Similar to SID Bank, its service providers responded to the COVID-19 threat by introducing work from home, arranging suitable protection for employees, etc.

As Slovenia's central financial institution in the area of promotion and development, SID Bank is moving into new areas of operation in line with its mission. In line with the gradual introduction of new products and the complexity of products and processes, SID Bank dedicates the appropriate amount of attention to operational risk. It is primarily through the provision of financing programmes for small and medium-sized enterprises (the promotional-development platform) that SID Bank has obtained several new customers in recent years, which has, in turn, required the recruitment of new staff and the further development of the relevant software support. The associated operational risk is managed through previously established work processes and a system of powers, by applying the four-eyes principle and by ensuring adequate IT support.

To manage risk arising from new product launches, the Bank has adopted an internal rulebook that sets out the rules for launching new products and the powers and responsibilities of the organisational units in the process of launching new products, including an emphasis on the performance of a comprehensive and impartial risk assessment. All material risks identified during the development or launch of a new product in connection with the planned introduction/launch of a new product must be processed in a timely and thorough manner in the risk management process in accordance with the bylaws governing the management of individual risks, which means, *inter alia*, that measures are adopted by the Bank's competent bodies to manage identified risks.

SID Bank monitors the risk of external and internal fraud within the context of operational risk via a loss events database, and is managed in detail within the compliance department. When assessing its exposure to fraud risk, the Bank assumes that fraud is the intent to commit an act for the purpose of acquiring an unlawful pecuniary benefit for oneself or a third party. Measures to prevent fraud are divided into short-term measures, which include internal controls/procedures in particular, and long-term measures, to be implemented through the strengthening of organisational culture on the part of the Bank. SID Bank did not identify any cases of internal fraud in 2020, but did detect and record three potential loss events of external fraud.

3.6 Capital management

Capital management

SID Bank must always have adequate capital at its disposal as a reserve against the various risks to which it is exposed in its operations. This is a continuous process of determining and maintaining a sufficient amount and quality of capital that is adequate, taking the taken-up risks defined in the capital management policy into account. Fulfilment of the capital requirements and of the requirements relating to buffers and the leverage ratio is based on the provisions of the CRR.

Capital risk relates to the inadequate composition of capital with regard to the scope and type of operations or to the difficulties that the Bank faces in obtaining fresh capital, particularly in the event of the need for a rapid increase or in the event of adverse conditions in the business environment.

The role and responsibilities of the supervisory board in the management of capital risk and capital are to assess the adequacy of the capital risk and capital management policy and assess the implementation of that policy. The management board is responsible for adopting an adequate capital management policy, ensuring an adequate amount and quality of capital, and meeting the regulator's capital requirements.

SID Bank meets the capital requirements on an individual basis, as it does not meet the prudential consolidation requirements.

Capital for capital adequacy purposes

Capital is divided into three categories with regard to its attributes and the requirements: Common Equity Tier 1 (CET1), Additional Tier 1 (T1) and Tier 2 (T2). SID Bank's capital is comprised solely of the highest quality Common Equity Tier 1 capital. The Bank does not hold any Additional Tier 1 capital or Tier 2 capital.

The Bank calculates the capital requirement for credit risk using the standardised approach, in accordance with the provisions of Part Three, Title II, Chapter 2 of the CRR. To calculate the amounts of the risk-weighted exposures for credit risk, the ratings for individual categories of exposure are not used; rather, the risk weights for the individual categories of exposure are assigned with respect to the degree of risk of the customer's country. In order to determine the level of credit quality of a central government (Article 114 of the CRR), the Bank uses SID Bank's rating as a nominated export credit agency, as set out in Article 137 of the CRR.

The Bank uses a basic indicator approach for calculating capital requirements for operational risk (Articles 315 and 316 of the CRR).

The capital requirement for credit valuation adjustment (CVA) risk is calculated using the standardised method, as set out in Article 384 of the CRR.

The capital requirement for currency risk is calculated in accordance with Articles 351 to 354 of the CRR, and is calculated when the sum of the total net foreign currency position exceeds 2% of the total capital for capital adequacy purposes. As at the end of 2020, SID Bank was not required to formulate capital requirements for currency risk, as the limit was not exceeded.

The Bank does not take into account net profit for the financial year, which for 2020 amounted to EUR 8,490 thousand, in the calculation of capital for capital adequacy purposes until SID Bank's general meeting adopts a resolution on the distribution of profit.

Reconciliation of items of Common Equity Tier 1 capital with the statement of financial position, the risk exposure and the capital adequacy ratios

	31 Dec 2020	31 Dec 2019
Total equity	**476,107**	**463,860**
Total adjustments to Common Equity Tier 1 capital	**(18,993)**	**(39,495)**
Of which:		
Net profit for the financial year and retained earnings	(8,490)	(33,883)
Intangible assets	(992)	(980)
Adjustments for assets and liabilities at fair value	(921)	(683)
Deduction for specific credit risk adjustments	(8,590)	(3,949)
Common Equity Tier 1 capital (CET1)	**457,114**	**424,365**
Additional Tier 1 capital (AT1)	0	0
Tier 1 capital (T1)	457,114	424,365
Tier 2 capital (T2)	0	0
Capital for capital adequacy purposes	**457,114**	**424,365**
Total exposure to credit risk	1,475,052	1,189,961
of which:		
Central governments and central banks	7,435	2,724
Regional governments or local authorities	21,133	12,886
Public sector entities	3,997	6,740
Multilateral development banks	2,400	2,400
Institutions	215,049	213,801
Corporates	1,153,647	859,685
Defaulted exposures	33,168	27,639
Regulatory high-risk exposures	26,148	7,137
Equity instruments	6,540	51,899
Other	5,537	5,050
Exposure to market risk (currency risk)	0	0
Exposure to operational risk	87,713	55,532
Exposure to credit valuation adjustment risk	6,925	1,354

	31 Dec 2020	31 Dec 2019
Total risk exposure amount (RWA)	**1,569,690**	**1,246,847**
Surplus of Common Equity Tier 1 capital (CET1)	386,478	368,257
Surplus of Tier 1 capital (T1)	362,933	349,554
Total surplus capital	331,539	324,617
Common Equity Tier 1 capital ratio (CET1)	29.12%	34.04%
Tier 1 capital ratio (T1)	29.12%	34.04%
Total capital ratio	**29.12%**	**34.04%**

Breakdown of capital requirements by type of risk and structure

	31 Dec 2020	Structure , %	31 Dec 2019	Structure , %
Capital requirements				
For credit risk	118,004	94.0	95,197	95.4
For operational risk	7,017	5.6	4,443	4.5
For credit valuation adjustment risk	554	0.4	108	0.1
Total	**125,575**	**100**	**99,748**	**100**

Capital requirements for credit risk

	31 Dec 2020	31 Dec 2019
Exposure class		
Central governments and central banks	595	218
Regional governments or local authorities	1,690	1,031
Public sector entities	320	539
Multilateral development banks	192	192
Institutions	17,204	17,104
Corporates	92,292	68,775
Defaulted exposures	2,653	2,211
Regulatory high-risk exposures	2,092	571
Equity instruments	523	4,152
Other	443	404
Total	**118,004**	**95,197**

Assessment of internal capital requirement

SID Bank annually assesses its risk profile, which comprises a documented and categorised collection of quantitative and qualitative assessments of the risks that the Bank takes up within the framework of its operations and the control environment with which it manages these risks. Checks are made at least every three years, upon material changes in the risks to which the Bank is exposed (e.g. upon new product launches) and upon substantial changes to the organisational structure and the functioning of the system of internal controls, to ensure that the assumptions of the methodology for assessing the risk profile of SID Bank are appropriate.

The risk profile serves as the basis for the integral risk management process, the internal capital adequacy assessment process, the planning of internal audit procedures, compliance and direct supervision by the Bank of Slovenia.

The results of the risk profile assessment for 2020 confirm a rise in SID Bank's risk score. The overall score for SID Bank's residual risk was higher than in 2019, but still shows that SID Bank is exposed to risks at an acceptable level. Contributing most to the increase in the risk profile was the COVID-19 pandemic and the associated general deterioration the economic conditions and the intervention and counter-cyclical role of SID Bank.

SID Bank uses a building-block approach in the internal assessment of risk-based capital requirements. In the first element (risks subject to minimum capital requirements), SID Bank assesses the risk-based capital requirements in the amount of the minimum capital requirements, as set out in the section on capital for capital adequacy purposes. In the second element (risks not fully covered by minimum capital requirements), SID Bank did not identify any material risks. In the third element (risks not subject to minimum capital requirements), SID Bank identifies interest rate risk in the banking book, concentration risk, profitability risk, strategic risk, reputation risk and risk resulting from the product of equity and quasi-equity financing as significant. In the fourth element (external factors), the Bank identifies risk-based capital requirements on the basis of stress tests, whereby it takes account of the fact that this is an additional component of capital intended to be used in crisis situations.

On a quarterly basis, SID Bank calculates the internal assessment of capital requirements and verifies whether the level of capital is adequate. The results are then reviewed by the asset-liability and liquidity management committee, and by SID Bank's management body in the scope of the risk report. Once a year, the management body approves the Bank’s risk profile score and the internal capital adequacy assessment process.

During its regular supervisory review and evaluation process (SREP) in 2020, the Bank of Slovenia assessed the risks to which SID Bank is exposed and found that the capital risk at the Bank was low. As at 31 December 2020, SID Bank exceeded the Bank of Slovenia's requirements regarding the level of capital ratios, including capital guidance (Pillar 2 Guidance or P2G), which derives from the findings of supervisory stress tests and must be comprised solely of Common Equity Tier 1 capital. Based on the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA/GL/2018/03), which were revised in 2018, the use of Common Equity Tier 1 capital intended for covering P2G is no longer possible, as of 1 January 2020, to be also used to meet other capital requirements.

Capital buffers

Under the provisions of the ZBan-2 and European banking legislation, the Bank of Slovenia has to define requirements regarding the maintenance of capital buffers that a bank shall meet for the purpose of preventing or mitigating macroprudential and systemic risks. Capital buffers represent an additional requirement for the Bank in determining the required level of capital, as banks must use their highest-quality capital (CET1) to meet not only the requirements arising from risks under Pillar 1 and Pillar 2 of the Basel Agreement, but also the requirements regarding capital buffers.

The combined buffer requirement means the total capital that banks must maintain to meet the requirements in connection with:

- the capital conservation buffer;
- the institution-specific countercyclical capital buffer;
- the buffer for globally systemically important institutions (not relevant for SID Bank);
- the buffer for other systematically important institutions; and
- the systemic risk buffer.

As at the end of 2020, SID Bank met the requirements relating to capital buffers, as explained below.

The Bank covers the capital conservation buffer with Common Equity Tier 1 (CET1) capital, which in 2020 amounted to 2.5% of the total risk exposure. The countercyclical capital buffer is implemented to protect the banking system against potential losses whenever these are related to an increase in risks in the system as a result of excessive growth in lending. The instrument increases the resilience of the banking system, and prevents excessive growth in lending. The buffer rate may range from 0% to 2.5% of the total risk exposure amount (and may exceptionally be higher), and depends on the level of risk in the system. The current buffer rate for exposure in Slovenia, in effect as of 1 January 2016, is zero percent. The institution-specific countercyclical capital buffer rate comprises the weighted average of countercyclical buffer rates that apply in countries in which the related credit exposures of SID Bank are located. SID Bank discloses more detailed data on the geographical distribution of credit exposures relevant to the calculation of the countercyclical capital buffer, capital requirements and the level of the institution-specific countercyclical capital buffer in the section Disclosures under Part 8 of the CRR. As at 31 December 2020, the level of SID Bank's institution-specific countercyclical capital buffer stood at 0.01% of total risk exposure, which arises from the relevant credit exposure to Luxembourg, whose countercyclical capital buffer rate is set at 0.25%, and the Czech Republic, whose countercyclical capital buffer rate is set at 0.5%, and to Norway, whose countercyclical capital buffer rate is set at 1%. Pursuant to the Bank of Slovenia decision, SID Bank must ensure a buffer for other systemically important institutions (O-SII) with its Common Equity Tier 1 (CET1) capital in the amount of 0.5% of total risk exposure from 1 January 2020 on, and in the amount of 0.25% of total risk exposure from 1 January 2021 on.

Leverage ratio

SID Bank regularly monitors the movement of the leverage ratio via its asset-liability and liquidity management committee and by using the selected risk appetite indicators. During the assessment of the risk profile, checks are also made to ensure that the Bank's leverage ratio is appropriate.

The leverage ratio stood at 14.7% as at 31 December 2020 (end of 2019: 16.5%), significantly in excess of the regulatory value and the adopted limit value within the framework of the risk appetite indicators. With respect to the structure of the statement of financial position and the level of the leverage ratio, the Bank concludes that the risk of excessive leverage is low. Detailed disclosures of the leverage ratio are given in the section on Disclosure under Part Eight of the CRR.

3.7 Fair value of financial assets and liabilities

Fair value of financial assets and liabilities

Fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date under current market conditions, regardless of whether the price can be directly observed or estimated using another valuation technique.

The fair value of financial assets and financial liabilities traded on an active market is based on published market prices. SID Bank determines fair value for all other financial instruments using other valuation techniques.

An active market is a market on which frequent transactions are made using assets or liabilities, whereby public information on prices is provided on a regular basis.

SID Bank measures fair value using a fair value hierarchy that reflects the significance of the input data.

- Level 1: Level 1 inputs are quoted prices on active markets for identical assets or liabilities to which SID Bank has access as at the measurement date. For the Bank, Level 1 includes investments in bonds, to which the MTS price applies within the MTS Slovenia trading system, and the Composite Bloomberg Bond Trader (CBBT) price.
- Level 2: Level 2 inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices). In Level 2, SID Bank includes financial instruments valued through the use of quoted prices for similar assets and liabilities on active markets, quoted prices for equivalent or similar assets and liabilities on inactive markets, or inputs other than quoted prices and that can be observed as assets or liabilities, e.g. interest rates and yield curves. Level 2 also includes investment in bonds that are valued on the basis of the Bloomberg Generic Price (BGN), as this price is identical to the interbank or OTC market price. While the BGN is not a direct price that SID Bank could use to sell securities on the valuation date, its use does ensure impartiality in valuation. The price is an indicator of the actual transactions on the market and of the prices that could be achieved through the sale of bonds on the market. The prices of sellers do not deviate

from the applied price to a materially significant extent. SID Bank does not have any loans at Level 2 measured at fair value.
– Level 3: SID Bank includes in this category financial instruments for which fair value is calculated according to models that mainly use unobservable inputs, and financial instruments that were valued at original cost. The fair value of loans mandatorily at fair value is calculated through the discounting of estimated cash flows at a uniform interest rate at recognition. Estimated future cash flows for loans to going concerns are calculated on the basis of contractual cash flows, the likelihood of repayment and macroeconomic forecasting factors. For loans to companies that are not going concerns, estimated future cash flows are calculated taking into account the liquidation of collateral, the haircut, the collateral redemption period and macroeconomic forecasting factors. Observable inputs are developed on the basis of market data such as public information on actual events and transactions. Unobservable inputs are inputs for which market data is not available and are developed using the best available information on the assumptions that market participants would use when pricing the asset or liability.

Financial assets measured at fair value

The financial instruments that SID Bank discloses at fair value in the statement of financial position are non-trading financial assets mandatorily at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and hedging derivatives.

Hedging derivatives that include interest rate swaps are valued taking account of market interest rates and yield curves.

The fair value of non-trading financial assets mandatorily at fair value through profit or loss and financial assets measured at fair value through other comprehensive income is determined using prices quoted on active markets for identical assets, prices quoted on active markets for similar assets and prices quoted for identical and similar assets on inactive markets.

Financial instruments measured at fair value – fair value hierarchy

The table shows financial instruments measured at fair value as at the reporting date with respect to the level at which they are classified in the fair value hierarchy.

	31 Dec 2020			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	35,197	35,197
Equity instruments	0	0	17,432	17,432
Loans and advances	0	0	17,765	17,765
Financial assets measured at fair value through other comprehensive income	22,529	809,625	50,952	883,106
Debt instruments	22,529	809,625	44,412	876,566
Equity instruments	0	0	6,540	6,540
Hedging derivatives	0	1,153	0	1,153
Total financial assets	**22,529**	**810,778**	**86,149**	**919,456**
Financial liabilities measured at fair value				
Hedging derivatives	0	1,087	0	1,087
Total financial liabilities	**0**	**1,087**	**0**	**1,087**

	31 Dec 2019			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Non-trading financial assets mandatorily at fair value through profit or loss	0	0	17,685	17,685
Equity instruments	0	0	4,758	4,758
Loans and advances	0	0	12,927	12,927
Financial assets measured at fair value through other comprehensive income	20,861	599,902	43,803	664,566
Debt instruments	20,861	599,902	37,256	658,019
Equity instruments	0	0	6,547	6,547
Total financial assets	**20,861**	**599,902**	**61,488**	**682,251**
Financial liabilities measured at fair value				
Hedging derivatives	0	841	0	841
Total financial liabilities	**0**	**841**	**0**	**841**

Financial assets not measured at fair value

The table shows the fair values of financial instruments not measured at fair value. Financial assets are disclosed at fair value as at the reporting date with respect to the level at which they are classified in the fair value hierarchy.

	31 Dec 2020			
	Level 2	Level 3	Fair value	Carrying amount
Cash balances at the central bank and other demand deposits at banks	120,187	0	120,187	120,187
Financial assets measured at amortised cost	814,439	1,222,878	2,037,317	1,858,750
Loans and advances to banks	813,209	0	813,209	783,725
Loans and advances to customers	0	1,222,878	1,222,878	1,073,795
Other financial assets	1,230	0	1,230	1,230
Total financial assets	**934,626**	**1,222,878**	**2,157,504**	**1,978,937**
Financial liabilities measured at amortised cost	913,161	1,511,788	2,424,949	2,424,553
Deposits from banks	1,259	0	1,259	1,259
Loans from banks and central banks	909,023	0	909,023	908,711
Loans from customers	0	832,461	832,461	832,377
Debt securities	0	679,327	679,327	679,327
Other financial liabilities	2,879	0	2,879	2,879
Total financial liabilities	**913,161**	**1,511,788**	**2,424,949**	**2,424,553**

	31 Dec 2019			
	Level 2	Level 3	Fair value	Carrying amount
Cash balances at the central bank and other demand deposits at banks	72,729	0	72,729	72,729
Financial assets measured at amortised cost	865,369	885,818	1,751,187	1,644,654
Loans and advances to banks	860,108	0	860,108	835,770
Loans and advances to customers	0	885,818	885,818	803,623
Other financial assets	5,261	0	5,261	5,261
Total financial assets	**938,098**	**885,818**	**1,823,916**	**1,717,383**
Financial liabilities measured at amortised cost	780,981	1,163,381	1,944,362	1,938,463
Deposits from banks	8,944	0	8,944	8,944
Loans from banks and central banks	769,310	0	769,310	768,968
Loans from customers	0	833,102	833,102	827,545
Debt securities	0	330,279	330,279	330,279
Other financial liabilities	2,727	0	2,727	2,727
Total financial liabilities	**780,981**	**1,163,381**	**1,944,362**	**1,938,463**

SID Bank recognises and measures issued debt securities and loans at amortised cost. For the purpose of calculating the effects of hedge accounting for instruments included in a hedging relationship, the fair value is calculated using valuation techniques and the expected present value. The expected present value is calculated using inputs that are not quoted prices and that can be observed, i.e. interest rates and yield curves.

Table of transfers between levels

2020	Transfers from Level 1 to Level 3
Financial assets measured at fair value	
Financial assets measured at fair value through other comprehensive income	2,063
Debt instruments	2,063

Transfers from Level 1 to Level 3 are the consequence of a change to the method of valuing bonds, which are valued according to the Ljubljana Stock Exchange price; however the bond price was older than nine months as at 31 December 2020. In this case, the Bank values the bond as a non-marketable security and classifies it to Level 3.

2019	Transfers from Level 1 to Level 2
Financial assets measured at fair value	
Financial assets measured at fair value through other comprehensive income	7,999
Debt instruments	7,999

Transfers from Level 1 to Level 2 are the consequence of a change to the method of valuing bonds. Bonds are valued at the time of purchase based on a foreign market price and then based on the Bloomberg Generic Price (BGN).

4 Management body's concise statement on SID Bank's approach to the realisation of risk appetite

In accordance with Article 435(1)(f) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (hereinafter: the CRR), the second paragraph of Article 17 of the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, and the EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA GL/2016/11), the management body hereby issues the following concise statement on risk management:

1. The overall risk level and the levels and types of individual material risks are subject to comprehensive identification once a year in the process of drawing up the Bank's risk profile, which is approved by its management body. Once a year, during the internal capital adequacy assessment process (ICAAP), the management body approves the assessment of the internal capital requirement and the capital available to cover losses in the event of the realisation of the risks taken up. The assessed risk absorption capacity is taken into account when the business strategy is being drafted and the business objectives and risk appetite are being defined. The risk profile of SID Bank is presented in detail in the Risk management segment in section 3 of the financial report, in subsection 3.6 Capital management. The management body also approves the internal liquidity adequacy assessment process (ILAAP) once a year, in which the Bank carries out a comprehensive assessment of the established systems for the management of liquidity risk, including an assessment of liquidity risk in connection with the Bank's risk profile and business strategy.

   When assessing its risk absorption capacity, which represents the maximum overall level of risk, SID Bank takes into account:
   - its risk profile assessment;
   - the result of the ICAAP, covering both the ordinary and extraordinary operations of SID Bank;
   - the Bank of Slovenia's expectations after each completed supervisory review and evaluation process in terms of maintaining the total capital ratio and the proportion of Common Equity Tier 1 capital for covering the recognised assessment of the internal capital requirement, which are both prescribed by the Bank of Slovenia;
   - the leverage ratio;
   - the result of the ILAAP and SID Bank's liquidity with regard to its risk profile;
   - the risk management action plan, which sets out the measures available for the management of identified and measured or assessed risks; and
   - other restrictions that derive from SID Bank's bylaws, from regulations and standards, and from the requirements of the Bank of Slovenia and other competent or supervisory authorities.

   Its high risk absorption capacity during the COVID-19 pandemic enabled SID Bank to develop specific intervention programmes, as well as adjustments to the existing financial and collateral programmes. As a result, the stock of new corporate loans granted directly to those affected by the negative effects of the pandemic increased.

2. SID Bank's risk appetite, taking into account its risk absorption capacity, is assessed by the Bank once a year, or more frequently in the event of significant changes in risk exposure. The management body defines the risk appetite at least once a year, in parallel with the process of adopting the annual operational plan, thereby ensuring that the risk appetite has been aligned to any changes in the business model and in the current business strategy.

   The risk appetite framework takes account of all material risks identified within the framework of the risk profile, and is reflected in the risk appetite indicators approved by the management body, including threshold values set with regard to the Bank's planned activities, and also the limits set in the policies for the take-up and management of individual risks and other bylaws of SID Bank. Where risk appetite indicators have prescribed regulatory values, SID Bank has set significantly more stringent target values. In accordance with the disclosures under the CRR, the selected risk appetite indicators for SID Bank are presented below. The major financial data and performance indicators of SID Bank are disclosed in the introductory section of the annual report, within the framework of the section entitled Major financial data and performance indicators of SID Bank. The selected risk appetite indicators recorded at the end of 2020 are cited below, together with the adopted target values for the risk appetite:

- overall capital ratio: 29.1% (target value: ≥ 20%);
- leverage ratio: 14.7% (target value: > 5%);
- liquidity coverage ratio (LCR): 6,313% (target value: > 130%);
- net stable funding ratio (NSFR): 132% (target value: > 110%);
- operational risk assessment score (risk profile): 2.9 (target value: ≤ 3).

In addition, the Bank has identified risk appetite indicators for the purpose of directing the business and mitigating individual types of risks, in particular:

- profitability and risks for the purpose of directing the business: ratio of risk-weighted assets to total assets, gross earnings before impairments and provisions, taxes (excluding the performance of the loan funds) relative to average risk-weighted assets, interest margin, interest margin on new loans adjusted for credit risk; and
- supervision of individual types of risks: limits on and determining the adequate NPE coverage ratio, limits on the change in the economic value of equity under the interest rate adverse scenario, limits on overall net position in foreign currencies and net overall position in individual currencies in terms of ratio to capital.

The risk appetite framework is approved annually by the management board and the supervisory board, and is monitored regularly and reported at the extended session of SID Bank's management board, where the executive directors and directors of individual organisational units attend in addition to the management board. Regular reporting of the achieved risk appetite indicator values is also provided to the supervisory board's risk committee. The risk framework and risk appetite indicators did not change significantly due to the COVID-19 pandemic, as the Bank was capable of taking up increased risks and functioning on an intervention and counter-cyclical basis without such changes, which resulted in a significant increase in risk-weighted assets at the end of the year.

The scope of risk take-up is complemented by the set of internal policies for the management of individual types of risk, via which SID Bank transfers limits regarding risk appetite into operational restrictions for the appropriate direction of the business. Risk management policies and internal rules set out the limits for the management of credit risk, market risk and liquidity risk, including the procedures for dealing with limit breaches and notification of the management board.

In order to manage the credit risk inherent in investments for managing the Bank's liquidity, bylaws set out limits on exposures to individual persons and, in case the persons comprise a group of connected clients, also a limit on the group and a limit on the individual persons. In managing these investments, SID Bank pursues a policy of investing its surplus liquidity in high-quality liquid financial instruments. In credit operations, limits are not predetermined or determined in general; rather, creditworthiness is determined when an individual investment transaction is reviewed with reference to the company's calculated borrowing capacity, which includes an assessment of long-term sustainable annual cash flow, less the normalised volume of replacement investments, normalised taxes, long-term expected dividends and gains, and the current and envisaged financial debt. The Bank did not adjust its credit standards in 2020 on account of the COVID-19 pandemic or its strategic policies in this area. When assessing credit quality, however, SID Bank makes a distinction as regards the borrowers to whom the COVID-19 related moratoria on loan repayments has been approved between those borrowers whose credit quality will not suffer major negative effects from the current situation and those who will likely not achieve the credit quality they enjoyed prior to the crisis. Due to deteriorating expectations in food services, tourism, the automotive industry and road transport, which could not yet have been identified at the end of 2020 through quantitative criteria in the assessment of significantly increased credit risk, additional analyses were performed at the level of individual customers, based on which SID Bank reclassified certain exposures to the group of customers with increased credit risk. Bylaws are used for the entire portfolio to set out the method of identifying and measuring concentration risk, on an individual basis, by economic sector, by country and by rating, but also due to additional exposures to the sectors most affected by the pandemic limits were not exceeded or the increased concentration was accepted with full awareness. The powers to approve transactions are set out in the bylaws and the articles of association of SID Bank with regard to the investment value and current exposure.

Quantitative limits are also set for the management of market risks. Limits on changes in net interest income and changes in the economic value of the Bank's equity are set for interest rate risk in the banking book. The limits are significantly more stringent than those prescribed by banking regulations. Position limits (stop loss) are set for the management of position risk. A limit on net exposure in a particular foreign currency and on net exposure in all foreign currencies relative to the Bank's capital is set for currency risk.

Quantitative limits are also set for the management of liquidity risk, and are more stringent than those prescribed in regulations. The Bank also carries out the regular planning and monitoring of cash flows, and an assessment of the effects of new transactions on the liquidity ratio. In addition, it also regularly verifies its liquidity position and liquidity adequacy, taking account of internally defined liquidity scenarios, and has drafted a plan of liquidity risk management for contingencies. The management body annually reviews and approves the ILAAP result, which covers an assessment of liquidity needs and an assessment of available liquidity within the framework of ordinary operations, and in adverse situations. The Bank's liquidity position is verified regularly by decision-making bodies through the monitoring of various indicators, including in relation to the achievement of planned ratios, with reporting frequency temporarily increasing due to the COVID-19 pandemic. The Bank regularly carries out an assessment of the adequacy of the Bank's funding, with a particular focus on the annual planning of business needs. The financial plan for the next three financial years is approved annually by the management body.

3. The Bank manages other material risks, among which it highlights strategic risk, reputation risk and profitability risk, and risks that are difficult to measure, such as certain subtypes of operational risk, i.e. compliance risk, cyber risk, business continuity risk, the risk of money laundering and terrorist financing and other unethical business practices, through qualitative risk management measures and internal control mechanisms. SID Bank's appetite to take up risks that are difficult to measure and reputation risk is low, with a focus on minimising their impact on its performance. The management of these risks is carried out, in particular, through set internal rules and controls over the implementation of the Bank's organisational, operational and work procedures, and additional monitoring by independent functions and internal control departments, which were further strengthened due to the COVID-19 pandemic (e.g. increased cyber risk due to work from home and other operational risks). Notwithstanding the above, other material risks and risks that are difficult to measure are subject to qualitative measurement within the process of formulating a risk profile and are quantified in accordance with the predetermined criteria. SID Bank manages other material risks by defining an internal capital requirement. Where necessary, or depending on the assessment of residual risk, the internal capital requirement and the appropriate coverage by capital are also determined in the case of risks that are difficult to measure.

4. As a development bank in accordance with the Slovene Export and Development Bank Act (ZSIRB), SID Bank is required to fully comply with the act governing banking, with the exception of parts that are explicitly excluded. This relates to special features during the assessment of large exposures, capital requirements, the establishment of bank branches, with regard to the obligation to draw up a recovery plan and the application of the provisions with regard to deposits covered by guarantee, as SID Bank is not allowed to accept deposits from the public. Additional restrictions on operations are set out in the ZSIRB and the rules governing state aid that apply in the EU, which require SID Bank to provide financial services only in segments where market gaps appear or are identified, and prohibit it from competing with other commercial banks. Furthermore, the purpose of SID Bank's funding must comply with the purposes defined by the law. SID Bank is not allowed to finance firms that are classed as firms in difficulty. The Bank and its management body take account of these and other prescribed requirements in the adoption and implementation of its business objectives, strategies and policies. Due to the significantly increased demand for corporate funding during the COVID-19 pandemic and demand for the quickest possible intervention by and response from SID Bank, the Bank adopted special rules on intervention measures regarding a temporary change to the implementation of internal procedures and rules, aimed, in particular, at simplifying and easing the administrative burden. With the adoption of these rules, SID Bank mitigated potential operational risks.

Ljubljana, 18 March 2021

Management board of SID Bank

Supervisory board

Goran Katušin
Member

Sibil Svilan, M. Sc.
President

Marjan Divjak, M. Sc.
Chair

5 Operations under Republic of Slovenia authorisation

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 against those commercial and non-commercial risks that, in light of their nature and level of risk, the private reinsurance sector is not willing to take up or has limited capacity to take up.

Operations on behalf of and for the account of the Republic of Slovenia are not included in the financial statements of SID Bank. They are recorded in separate items, as determined by the Bank of Slovenia for the administration of these operations.

	31 Dec 2020	31 Dec 2019
Assets		
Customer funds in current accounts	78	179
Financial assets measured at fair value through other comprehensive income	142,449	145,546
Loans and advances	27,508	18,589
Loans and advances to banks	27,508	18,589
Equity investments	2,820	2,698
Other assets	389	520
Total assets	**173,244**	**167,532**
Liabilities		
Contingency reserves	166,257	160,553
Accumulated other comprehensive income	3,773	3,747
Other financial liabilities	5	14
Other liabilities	3,209	3,218
Total liabilities	**173,244**	**167,532**
Memorandum account for brokerage	**927,812**	**765,019**

The memorandum account for insurance brokerage on behalf of and for the account of the Republic of Slovenia represents the exposure from valid insurance policies and commitments.

In November 2017, the MEDT and SID Bank signed a financing agreement, under which the first SID Bank Fund of Funds was created (FI 2014–2020 Fund of Funds). That fund is intended for the use of European cohesion funds. The Ministry appointed SID Bank as the manager of the FI 2014–2020 Fund of Funds.

In order to mitigate the consequences of the economic crisis due to the COVID-19 pandemic in 2020, a new COVID-19 Fund of Funds was established in collaboration with the MEDT.

SID Bank manages the fund on its own behalf and for the account of the Republic of Slovenia.

The operations of the funds that SID Bank manages on its own behalf and for the account of the Republic of Slovenia are not included in the financial statements of SID Bank, but are instead recorded in separate items.

FI 2014–2020 Fund of Funds

The purpose of the FI 2014–2020 Fund of Funds is the promotion and financing of energy efficiency projects, urban development of urban municipalities, sustainable economic growth and development, investments in innovation, and current operations, through debt and equity financing.

	31 Dec 2020	31 Dec 2019
Assets		
Funds in settlement account	3,700	31,079
Financial assets mandatorily at fair value through profit or loss	104,265	76,817
Loans and advances	0	5,999
Loans and advances to banks	0	5,999
Other assets	22	18
Total assets	**107,987**	**113,913**
Liabilities		
Financial liabilities	107,788	113,819
Loans from customers	122,062	123,795
Revaluation of loans from customers	(14,688)	(10,294)
Other financial liabilities	414	318
Provisions	176	94
Other liabilities	23	0
Total liabilities	**107,987**	**113,913**
Memorandum account for brokerage	**232,790**	**190,524**
Off-balance-sheet receivables	126,500	126,500
Loans received: east	46,450	46,450
Loans received: west	67,550	67,550
Loans received: unclassified	12,500	12,500
Off-balance-sheet liabilities	106,290	64,024
Loans granted: east	36,513	23,677
Loans granted: west	55,453	27,623
Loans granted: unclassified	14,324	12,724

COVID-19 Fund of Funds

The COVID-19 Fund of Funds is a new fund created in the scope of SID Bank's Fund of Funds with the aim of financing investments, research, development, innovations and working capital in order to improve liquidity and facilitate the recovery of the economy, which was hit hard by the COVID-19 pandemic.

	31 Dec 2020
Assets	
Funds in settlement account	15,511
Financial assets mandatorily at fair value through profit or loss	12,986
Other assets	1
Total assets	**28,498**
Liabilities	
Financial liabilities	28,426
Loans from customers	32,490
Revaluation of loans from customers	(4,098)
Other financial liabilities	34
Provisions	72
Total liabilities	**28,498**
Memorandum account for brokerage	**68,250**
Off-balance-sheet receivables	32,501
Loans received: east	14,658
Loans received: west	17,843
Off-balance-sheet liabilities	35,749
Loans granted: east	16,123
Loans granted: west	19,626

6 Disclosures on the basis of Part Eight of the CRR

The disclosures under Part Eight of the CRR that are relevant to SID Bank and are not included in the previous sections of the annual report are presented in this section below. The disclosures have been compiled taking into account the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 published by the EBA.

The disclosures are drawn up for SID Bank on an individual basis, as the Bank is not required to meet requirements on a consolidated basis.

In accordance with the EBA guidelines, the figures for the comparable period in individual templates in sections 6, 7 and 8 relate to the period set out by the guidelines with regard to disclosure frequency (quarterly, half-yearly or annually). Individual templates show the rows and columns of relevance to SID Bank.

At the end of 2020, Bank of Slovenia amended the methodology for disclosing excluded income from receivables for interest on non-performing loans. In accordance with that change, excluded income that was disclosed as a reduction in gross exposure in previous reporting periods was disclosed as an adjustment to the value of claims as at 31 December 2020. As the result of that change, the gross balances of non-performing claims as at 31 December 2020 were up relative to the previous reporting period, as were credit risk adjustments of those claims.

6.1 LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of the CRR

(Article 435(1)(f) of the CRR)

Qualitative/quantitative information in connection with the LCR in accordance with Article 435(1) of Regulation (EU) No 575/2013

Quantitative information regarding the LCR

Extent of consolidation	On an individual basis	On an individual basis
Currency and units	(EUR thousand)	(EUR thousand)
Quarter ending on	**31 Mar 2020**	**30 Jun 2020**
Number of data points used in the calculation of averages	12	12

		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total high-quality liquid assets (HQLA)		260,403		277,670
Cash outflows					
2	Retail deposits and deposits from small business customers, of which:	0	0	0	0
3	Stable deposits	0	0	0	0
4	Less stable deposits	0	0	0	0
5	Unsecured wholesale funding	14,969	13,916	16,233	15,812
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0
7	Non-operational deposits (all counterparties)	14,743	13,690	15,987	15,566
8	Unsecured debt	226	226	247	247
9	Secured wholesale funding		0		0
10	Additional requirements	151,264	30,065	162,000	26,155

		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
11	Outflows related to derivative exposures and other collateral requirements	76	76	76	76
12	Outflows related to loss of funding on debt products	0	0	0	0
13	Credit and liquidity facilities	151,189	29,989	161,924	26,079
14	Other contractual funding obligations	332	332	1,058	370
15	Other contingent funding obligations	65,087	4,074	64,653	3,233
16	Total cash outflows		48,387		45,570
Cash inflows					
17	Secured lending (e.g. reverse repos)	0	0	0	0
18	Inflows from fully performing exposures	35,125	30,352	37,698	32,808
19	Other cash inflows	1,518	1,518	2,588	2,588
20	Total cash inflows	36,643	31,870	40,286	35,396
EU-20a	Fully exempt inflows	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0
EU-20c	Inflows subject to 75% cap	36,643	31,870	40,286	35,396
			Total adjusted value		Total adjusted value
21	**Liquidity buffer**		**260,403**		**277,670**
22	**Total net cash outflows**		**25,111**		**19,994**
23	**Liquidity coverage ratio (%)**		**1502 %**		**1735 %**

Extent of consolidation			On an individual basis		On an individual basis
Currency and units			(EUR thousand)		(EUR thousand)
Quarter ending on			**30 Sep 2020**		**31 Dec 2020**
Number of data points used in the calculation of averages			12		12
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total high-quality liquid assets (HQLA)		345,642		396,703
Cash outflows					
2	Retail deposits and deposits from small business customers, of which:	0	0	0	0
3	Stable deposits	0	0	0	0
4	Less stable deposits	0	0	0	0
5	Unsecured wholesale funding	12,197	12,197	7,219	7,219
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	0	0	0	0
7	Non-operational deposits (all counterparties)	11,950	11,950	6,972	6,972
8	Unsecured debt	247	247	247	247
9	Secured wholesale funding		0		0
10	Additional requirements	174,751	27,676	172,979	26,660
11	Outflows related to derivative exposures and other collateral requirements	14	14	14	14
12	Outflows related to loss of funding on debt products	0	0	0	0
13	Credit and liquidity facilities	174,737	27,662	172,965	26,646
14	Other contractual funding obligations	2,950	407	3,292	424
15	Other contingent funding obligations	63,971	3,199		3,201
16	Total cash outflows		43,478		37,504
Cash inflows					
17	Secured lending (e.g. reverse repos)	0	0	0	0
18	Inflows from fully performing exposures	29,809	25,569	34,044	29,476

Extent of consolidation			On an individual basis		On an individual basis
Currency and units			(EUR thousand)		(EUR thousand)
Quarter ending on			**30 Sep 2020**		**31 Dec 2020**
Number of data points used in the calculation of averages			12		12
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
19	Other cash inflows	2,568	2,568	1,923	1,923
20	Total cash inflows	32,377	28,136	35,968	31,399
EU-20a	Fully exempt inflows	0	0	0	0
EU-20b	Inflows subject to 90% cap	0	0	0	0
EU-20c	Inflows subject to 75% cap	32,377	28,136	35,968	31,399
			Total adjusted value		Total adjusted value
21	**Liquidity buffer**		**345,642**		**396,703**
22	**Total net cash outflows**		**19,616**		**17,020**
23	**Liquidity coverage ratio (%)**		**1933 %**		**2706 %**

Qualitative information regarding the LCR

Concentration of funding and liquidity	The specific role of the Bank and the fact that SID Bank does not accept deposits from the public have a significant impact on the structure of funding. SID Bank obtains long-term funding supported by a Slovenian government guarantee primarily on international financial markets and at related financial institutions. Disclosure regarding structure of financial liabilities and liquid assets: – Business Report, Performance in 2020 section, Funding and Liquid assets subsections – Financial Report, section 2.4 – Financial Report, section 3.2 Liquidity risk
Derivative exposures and potential collateral calls	Exposure to derivatives is presented in section 2.4.13 in the Financial Report.
Currency mismatch in LCR	The liquidity buffer only comprises items denominated in euros. The liquidity inflows and outflows are also mostly denominated in euros. The proportion denominated in US dollars is small. The proportion of other currencies in liquidity inflows (balances in bank accounts in foreign currencies) is negligible.
Description of degree of centralisation of liquidity management and mutual relations, and communication mechanisms between units in group	The Bank calculates the LCR on an individual basis.
Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant to its liquidity profile	-

6.2 Number of directorships held by members of the management body

(Article 435(2)(a) of the CRR)

Membership in bodies of other persons as at 31 Dec 2020

	Name of other person	Function
Management board		
Sibil Svilan		
	Bank Association of Slovenia	member of supervisory board
	European Association of Public Banks (EAPB)	member of board of directors
	Three Seas Initiative investment fund	member of the supervisory board
Goran Katušin	Bank Association of Slovenia	deputy member of supervisory board
Supervisory board		
Zlatko Vili Hohnjec	Finančni inženiring Zlatko Vili Hohnjec, s.p.	executive director
	Terme Olimia d.d.	member of supervisory board
	Istrabenz Turizem d.d.	member of supervisory board
	Gradis Celje d.d. (in bankruptcy)	official receiver
	ELTI d.o.o. (in bankruptcy)	official receiver
	Verada d.o.o. (in bankruptcy)	official receiver
	Papir Servis d.o.o. (in bankruptcy)	official receiver
	Polzela d.o.o. (in bankruptcy)	official receiver
	G Gradnje d.o.o. (in bankruptcy)	official receiver
	SGP Gorica d.d. (in bankruptcy)	official receiver
Igor Masten	ECONLAB Consulting d.o.o.	director
	ECONLAB, Igor Masten s.p.	executive director
Sašo Polanec	ECONFER, Sašo Polanec s.p.	executive director
Marko Tišma	BAMC	non-executive director
	Terme Olimia d.d.	member of supervisory board

6.3 Main features of the capital instruments issued by the Bank

(Article 437(1)(b) and (c) of the CRR)

1	Issuer	SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana
2	Unique identifier	SIDR, ISIN SI0021102932
3	Governing law(s) of the instrument	Slovene
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital
6	Eligible on an individual/(sub-)consolidated/individual & (sub-)consolidated basis	On an individual basis
7	Instrument type	Ordinary shares
8	Amount recognised in regulatory capital	EUR 300 million
9	Nominal amount of instrument	No nominal amount - no-par value shares
9a	Issue price	No nominal issue amount - no-par value shares
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	20 Jun 1997
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	N/A

N/A – not applicable

SID Bank has no instruments of Additional Tier 1 capital or Tier 2 capital. In accordance with Article 4 of the ZSIRB, SID Bank's distributable profit may not be used for distribution to shareholders, but is instead allocated to other profit reserves.

6.4 Disclosure of own funds

Annex IV of Commission Implementing Regulation (EU) No 1423/2013

(Article 437(1)(d) and (e) of the CRR)

Common Equity Tier 1 capital: instruments and reserves		31 Dec 2020 (A) Amount at disclosure date	30 Jun 2020 (A) Amount at disclosure date
1	Capital instruments and the related share premium accounts, of which:	299,814	299,814
	Paid-up capital instruments	300,000	300,000
	Share premium account	1,139	1,139
	Treasury shares	(1,324)	(1,324)
3	Accumulated other comprehensive income (and any other reserves)	167,802	143,889
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**467,617**	**443,704**
7	Additional value adjustments (negative amount)	(921)	(739)
8	Intangible assets (net of related tax liability) (negative amount)	(992)	(931)
24	Deduction for specific credit risk adjustments	(8,590)	(4,888)
25a	Losses in the current financial year (negative amount)	0	(808)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(10,503)**	**(7,365)**
29	**Common equity Tier 1 (CET1) capital**	**457,114**	**436,339**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**457,114**	**436,339**
59	**Total capital (TC = T1 + T2)**	**457,114**	**436,339**
60	**Total risk-weighted assets**	**1,569,690**	**1,310,843**
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	29.12 %	33.29 %
62	Tier 1 (as a percentage of total risk exposure amount)	29.12 %	33.29 %
63	Total capital (as a percentage of total risk exposure amount)	29.12 %	33.29 %
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	3.012 %	3.008 %
65	of which: capital conservation buffer requirement	2.500 %	2.500 %
66	of which: countercyclical buffer requirement	0.012 %	0.008 %
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.500 %	0.500 %
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	6,540	6,634

The above table discloses the items of the Bank's own funds under the template from Commission Implementing Regulation (EU) No 1423/2013, which sets out the disclosure of own fund requirements for institutions in accordance with the CRR. SID Bank has no instruments of Additional Tier 1 capital or Tier 2 capital.

The Bank does not take into account net profit for the financial year, which for 2020 amounted to EUR 8,490 thousand, in the calculation of capital for capital adequacy purposes until SID Bank's general meeting adopts a resolution on the distribution of profit.

6.5 Geographical distribution of the Bank's credit exposures relevant for the calculation of its countercyclical capital buffer and the amount of its institution-specific countercyclical capital buffer

(Article 440(1)(a) of the CRR)

The table below indicates those credit exposures to individual sovereigns (governments) that are relevant to the calculation of countercyclical capital buffers, i.e. exposures to individual exposure classes set out in Article 112 of the CRR, excluding the exposure classes referred to in points (a) to (f) of the aforementioned article.

The Bank uses a standardised approach for the calculation of exposure values. The Bank has no exposures included in the trading book, and no exposures to securitisation positions.

	General credit exposures	Own funds requirements			
31 Dec 2020	(010) Exposure value under the Standardised Approach	(070) of which: general credit exposures	(100) Total	(110) Own funds requirements weights	(120) Countercyclical capital buffer rate
Country code					
SI	1,055,117	84,668	84,668	0.86	0.00 %
FR	26,716	2,137	2,137	0.02	0.00 %
LU	24,750	2,373	2,373	0.02	0.25 %
NL	22,092	1,867	1,867	0.02	0.00 %
DE	15,396	1,232	1,232	0.01	0.00 %
HR	12,920	1,034	1,034	0.01	0.00 %
CZ	9,183	735	735	0.01	0.50 %
AT	9,038	723	723	0.01	0.00 %
UA	8,647	692	692	0.01	0.00 %
CK	6,980	558	558	0.01	0.00 %
US	6,177	494	494	0.01	0.00 %
GH	5,743	459	459	0.00	0.00 %
IT	4,274	342	342	0.00	0.00 %
BE	3,503	280	280	0.00	0.00 %
NO	3,176	254	254	0.00	1.00 %
RS	1,856	148	148	0.00	0.00 %
GB	63	5	5	0.00	0.00 %
CH	8	1	1	0.00	0.00 %
IE	5	0	0	0.00	0.00 %
RO	2	0	0	0.00	0.00 %
MK	1	0	0	0.00	0.00 %
Total	**1,215,647**	**98,003**	**98,003**	**1**	

30 Jun 2020	General credit exposures	Own funds requirements			
	(010) Exposure value under the Standardised Approach	(070) of which: general credit exposures	(100) Total	(110) Own funds requirements weights	(120) Countercyclical capital buffer rate
Country code					
SI	900,479	72,492	72,492	0.90	0.00 %
FR	15,064	1,205	1,205	0.01	0.00 %
NL	14,694	1,276	1,276	0.02	0.00 %
AT	9,998	800	800	0.01	0.00 %
HR	9,804	784	784	0.01	0.00 %
US	8,391	671	671	0.01	0.00 %
UA	7,448	596	596	0.01	0.00 %
CK	6,762	541	541	0.01	0.00 %
GH	5,875	470	470	0.01	0.00 %
DE	4,939	395	395	0.00	0.00 %
CZ	4,020	322	322	0.00	1.00 %
BE	3,400	272	272	0.00	0.00 %
NO	3,164	253	253	0.00	1.00 %
RS	2,560	205	205	0.00	0.00 %
LU	1,180	142	142	0.00	0.25 %
GB	43	3	3	0.00	0.00 %
IE	34	3	3	0.00	0.00 %
MK	1	0	0	0.00	0.00 %
Total	**997,855**	**80,429**	**80,429**	**1.00**	

(Article 440(1)(b) of the CRR) – Institution-specific countercyclical capital buffer rate

An institution-specific countercyclical capital buffer rate is calculated as the weighted average of valid countercyclical buffer rates that apply in countries in which the relevant exposures for the calculation of countercyclical buffers of the bank in question are located. The rate for the Bank stood at 0.012% as at 31 December 2020.

		31 Dec 2020	30 Jun 2020
010	Total risk exposure amount	1,569,690	1,310,843
020	Institution-specific countercyclical capital buffer rate	0.012 %	0.008 %
030	Institution-specific countercyclical capital buffer requirement	195	99

6.6 Template 1 – EU LI1: Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

(Article 436(b) of the CRR)

	a	c	d	f	g
		Carrying values of items			
31 Dec 2020	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subject to the CRR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central banks and demand deposits at banks	120,186	120,186	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	35,197	35,197	0	0	0
Financial assets measured at fair value through other comprehensive income	883,106	883,106	0	0	0
Financial assets measured at amortised cost	1,858,751	1,858,751	0	0	0
Hedging derivatives	1,153	0	1,153	0	0
Property, plant and equipment	4,337	4,337	0	0	0
Intangible assets	992	0	0	0	992
Other assets	3,637	3,637	0	0	0
Total assets	**2,907,358**	**2,905,214**	**1,153**	**0**	**992**
Financial liabilities measured at amortised cost	2,424,554	0	0	0	2,424,554
Hedging derivatives	1,087	0	1,087	0	0
Provisions	4,635	3,191	0	0	1,444
Other liabilities	976	0	0	0	976
Total liabilities	**2,431,252**	**3,191**	**1,087**	**0**	**2,426,973**

	a	c	d	f	g
		Carrying values of items			
31 Dec 2019	Carrying values as reported in published financial statements	Subject to the credit risk framework	Subject to the CRR framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, cash balances at central banks and demand deposits at banks	72,729	72,729	0	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	17,685	17,685	0	0	0
Financial assets measured at fair value through other comprehensive income	664,566	664,566	0	0	0
Financial assets measured at amortised cost	1,644,655	1,644,655	0	0	0
Property, plant and equipment	4,618	4,618	0	0	0
Intangible assets	980	0	0	0	980
Other assets	932	932	0	0	0
Total assets	**2,406,164**	**2,405,185**	**0**	**0**	**980**
Financial liabilities measured at amortised cost	1,938,463	0	0	0	1,938,463
Hedging derivatives	841	0	841	0	0
Provisions	2,374	1,532	0	0	842
Other liabilities	626	0	0	0	626
Total liabilities	**1,942,304**	**1,532**	**841**	**0**	**1,939,931**

6.7 Template 2 – EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c
			Items subject to	
31 Dec 2020		Total	Credit risk framework	CCR framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**2,907,358**	**2,905,214**	**1,153**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(4,278)	(3,191)	(1,087)
3	Total net amount under the regulatory scope of consolidation	2,903,080	2,902,022	66
4	Off-balance-sheet amounts	270,640	191,748	0
5	Differences for derivatives	7,684	0	7,684
6	Differences due to the use of conversion factors for off-balance-sheet liabilities	(78,892)	0	0
7	Differences due to the consideration of provisions	3,191	3,191	0
8	Differences due to capital deductions	(992)	0	0
10	**Exposure amounts considered for regulatory purposes**	**3,104,712**	**3,096,962**	**7,750**

		a	b	c
			Items subject to	
31 Dec 2019		Total	Credit risk framework	CCR framework
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**2,406,164**	**2,405,185**	**0**
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	(2,373)	(1,532)	(841)
3	Total net amount under the regulatory scope of consolidation	2,403,791	2,403,653	(841)
4	Off-balance-sheet amounts	274,689	163,209	0
5	Differences for derivatives	1,741	0	1,741
6	Differences due to the use of conversion factors for off-balance-sheet liabilities	(111,481)	0	0
7	Differences due to the consideration of provisions	1,532	1,532	0
8	Differences due to capital deductions	(980)	0	0
10	**Exposure amounts considered for regulatory purposes**	**2,569,293**	**2,568,393**	**900**

SID Bank is obliged to fulfil regulatory requirements on an individual basis. The data in the above table therefore relate to the individual financial statements of the Bank.

The template shows the difference between the carrying amounts of assets and off-balance-sheet liabilities in the financial statements and the risk-weighted exposure amounts that are used for regulatory purposes, and represent the basis for the calculation of RWAs.

6.8 Template 4 – EU OV1: Overview of RWAs

(Article 438(c) to (f) of the CRR)

			RWAs		Minimum capital requirements	
			31 Dec 2020	30 Sep 2020	31 Dec 2020	30 Sep 2020
	1	Credit risk (excluding CCR)	1,473,502	1,340,712	117,880	107,257
Article 438(c)(d)	2	*of which the standardised approach*	1,473,502	1,340,712	117,880	107,257
Article 438(c)(d), Article 107	6	CCR	8,475	8,811	678	705
	9	*of which the standardised approach*	1,550	1,550	124	124
Article 438(c)(d)	12	*of which CVA*	6,925	7,261	554	581
Article 438(f)	23	Operational risk	87,713	64,245	7,017	5,140
	24	*Of which basic indicator approach*	87,713	64,245	7,017	5,140
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	905	0	72
	29	Total	1,569,690	1,414,674	125,575	113,174

6.9 Template 7 – EU CRB-B: Total and average net amount of exposures

(Article 442(c) of the CRR)

		a	b	a	b
		Net value of exposures 31 Dec 2020	Average net exposures in 2020	Net value of exposures 31 Dec 2019	Average net exposures in 2019
16	Central governments or central banks	806,146	742,827	594,458	617,927
17	Regional governments or local authorities	107,929	77,605	67,736	58,240
18	Public sector entities	22,417	24,448	33,702	32,168
19	Multilateral development banks	12,508	13,658	15,254	13,592
20	International organisations	1,249	250	0	0
21	Institutions	951,769	945,662	934,480	961,938
22	Corporates	1,216,394	1,050,093	929,547	855,827
23	*of which: SMEs*	427,193	362,442	320,834	281,357
28	Defaulted exposures	32,492	27,727	27,357	28,681
29	Items associated with particularly high risk	17,432	9,294	4,758	3,170
33	Equity instruments	6,540	15,651	51,899	32,049
34	Other exposures	5,537	5,445	5,050	5,387
35	**Total standardised approach**	3,180,412	2,912,658	**2,664,241**	**2,608,980**
36	**Total**	3,180,412	2,912,658	**2,664,241**	**2,608,980**

6.10 Template 8 – EU CRB-C: Geographical breakdown of exposures

(Article 442(d) of the CRR)

		a	b	c	d	n
		Net values				
31 Dec 2020		Slovenia	Other EU Member States	Other European countries	Other countries	Total
7	Central governments or central banks	547,231	258,916	0	0	806,146
8	Regional governments or local authorities	105,770	2,158	0	0	107,929
9	Public sector entities	22,417	0	0	0	22,417
10	Multilateral development banks	0	12,508	0	0	12,508
11	International organisations	0	1,249	0	0	1,249
12	Institutions	664,944	243,646	43,179	0	951,769
13	Corporates	1,076,058	108,710	14,015	17,610	1,216,394
16	Defaulted exposures	25,661	6,831	0	0	32,492
17	Items associated with particularly high risk	5,116	12,316	0	0	17,432
21	Equity instruments	0	6,540	0	0	6,540
22	Other exposures	4,971	462	72	32	5,537
23	**Total standardised approach**	**2,452,168**	**653,337**	**57,265**	**17,642**	**3,180,412**
24	**Total**	**2,452,168**	**653,337**	**57,265**	**17,642**	**3,180,412**

		a	b	c	d	n
		Net values				
31 Dec 2019		Slovenia	Other EU Member States	Other European countries	Other countries	Total
7	Central governments or central banks	447,755	146,702	0	0	594,458
8	Regional governments or local authorities	65,514	2,205	17	0	67,736
9	Public sector entities	33,702	0	0	0	33,702
10	Multilateral development banks	0	15,254	0	0	15,254
11	International organisations	0	0	0	0	0
12	Institutions	691,515	201,512	41,453	0	934,480
13	Corporates	867,524	27,472	14,245	20,305	929,547
16	Defaulted exposures	22,189	4,978	190	0	27,357
17	Items associated with particularly high risk	2,258	2,500	0	0	4,758
21	Equity instruments	45,352	6,547	0	0	51,899
22	Other exposures	4,811	209	1	30	5,050
23	**Total standardised approach**	**2,180,619**	**407,381**	**55,906**	**20,335**	**2,664,241**
24	**Total**	**2,180,619**	**407,381**	**55,906**	**20,335**	**2,664,241**

6.11 Template 9 – EU CRB-D: Concentration of exposures by industry or counterparty types

(Article 442(e) of the CRR)

31 Dec 2020		Net values: Financial and insurance activities	Public administration and defence, compulsory social security	Manufacturing	Transportation and storage	Wholesale and retail trade (maintenance and repair of motor vehicles)	Other	Total
7	Central governments or central banks	119,303	686,844	0	0	0	0	806,146
8	Regional governments or local authorities	0	107,929	0	0	0	0	107,929
9	Public sector entities	8,074	14,043	0	0	0	300	22,417
10	Multilateral development banks	12,508	0	0	0	0	0	12,508
11	International organisations	0	0	0	0	0	1,249	1,249
12	Institutions	951,769	0	0	0	0	0	951,769
13	Corporates	31,944	0	440,589	174,210	141,541	428,110	1,216,394
16	Defaulted exposures	349	0	4,892	6,304	16,834	4,112	32,492
17	Items associated with particularly high risk	17,432	0	0	0	0	0	17,432
21	Equity instruments	6,540	0	0	0	0	0	6,540
22	Other exposures	4,873	416	30	8	3	207	5,537
23	**Total standardised approach**	**1,152,791**	**809,231**	**445,511**	**180,523**	**158,377**	**433,979**	**3,180,412**
24	**Total**	**1,152,791**	**809,231**	**445,511**	**180,523**	**158,377**	**433,979**	**3,180,412**

31 Dec 2019		Net values: Financial and insurance activities	Public administration and defence, compulsory social security	Manufacturing	Transportation and storage	Electricity, gas, steam and air conditioning supply	Other	Total
7	Central governments or central banks	72,673	521,785	0	0	0	0	594,458
8	Regional governments or local authorities	0	67,736	0	0	0	0	67,736
9	Public sector entities	25,260	8,441	0	0	0	0	33,702
10	Multilateral development banks	15,254	0	0	0	0	0	15,254
11	International organisations	0	0	0	0	0	0	0
12	Institutions	934,480	0	0	0	0	0	934,480
13	Corporates	13,204	0	339,955	149,258	139,312	287,818	929,547
16	Defaulted exposures	602	0	4,288	6,734	0	15,733	27,357
17	Items associated with particularly high risk	4,758	0	0	0	0	0	4,758
21	Equity instruments	51,899	0	0	0	0	0	51,899
22	Other exposures	4,846	1	0	8	0	196	5,050
23	**Total standardised approach**	**1,122,976**	**597,963**	**344,243**	**155,999**	**139,312**	**303,748**	**2,664,241**
24	**Total**	**1,122,976**	**597,963**	**344,243**	**155,999**	**139,312**	**303,748**	**2,664,241**

Within the framework of exposure to other economic sectors, the largest exposures as at 31 December 2020 were disclosed against the sector of electricity, gas, steam and air conditioning supply in the amount of EUR 175,162 thousand, and the sector of accommodation and food services in the amount of EUR 94,767 thousand.

6.12 Template 10 – EU CRB-E: Maturity of exposures

(Article 442(f) of the CRR)

The table below shows net on-balance-sheet and off-balance-sheet exposures, broken down by individual exposure class in terms of residual maturity.

The final maturity date of a transaction is taken into account in the case of instalment repayment upon the maturity of individual transactions.

		a	b	c	d	e	f
		Net value of exposures					
31 Dec 2020		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	119,303	108,955	196,011	381,877	1	806,146
8	Regional governments or local authorities	0	0	7,187	100,741	0	107,929
9	Public sector entities	0	0	0	22,417	0	22,417
10	Multilateral development banks	0	0	0	508	12,000	12,508
11	International organisations	0	0	0	1,249	0	1,249
12	Institutions	883	156,989	229,596	564,301	0	951,769
13	Corporates	8	38,267	294,184	869,001	14,934	1,216,394
16	Defaulted exposures	1,021	17,185	2,956	11,330	0	32,492
17	Items associated with particularly high risk	0	0	0	0	17,432	17,432
21	Equity instruments	0	0	0	0	6,540	6,540
22	Other exposures	0	0	0	0	5,536	5,537
23	**Total standardised approach**	**121,215**	**321,397**	**729,934**	**1,951,424**	**56,443**	**3,180,412**
24	**Total**	**121,215**	**321,397**	**729,934**	**1,951,424**	**56,443**	**3,180,412**

		a	b	c	d	e	f
		Net value of exposures					
31 Dec 2019		On demand	≤ 1 year	> 1 year ≤ 5 years	> 5 years	No stated maturity	Total
7	Central governments or central banks	72,573	43,445	237,500	240,490	450	594,458
8	Regional governments or local authorities	0	115	5,021	62,599	0	67,736
9	Public sector entities	0	16,733	0	16,969	0	33,702
10	Multilateral development banks	0	0	0	3,254	12,000	15,254
11	International organisations	0	0	0	0	0	0
12	Institutions	56	104,541	259,463	570,420	0	934,480
13	Corporates	8	39,814	244,099	645,625	0	929,547
16	Defaulted exposures	467	6,736	12,963	7,191	0	27,357
17	Items associated with particularly high risk	0	0	0	0	4,758	4,758
21	Equity instruments	0	45,352	0	0	6,547	51,899
22	Other exposures	0	0	0	0	5,050	5,050
23	**Total standardised approach**	**73,104**	**256,736**	**759,046**	**1,546,550**	**28,805**	**2,664,241**
24	**Total**	**73,104**	**256,736**	**759,046**	**1,546,550**	**28,805**	**2,664,241**

6.13 Template 11 – EU CR1-A: Credit quality of exposures by exposure class and instrument

(Article 442(g) and (h) of the CRR)

		a	b	c	e	f	g
		Gross carrying amount					
31 Dec 2020		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges in 2nd half of 2020	Net values (a+b-c)
16	Central governments or central banks	0	806,187	40	0	5	806,146
17	Regional governments or local authorities	0	107,959	30	0	(1)	107,929
18	Public sector entities	0	22,434	17	0	26	22,417
19	Multilateral development banks	0	12,508	0	0	0	12,508
20	International organisations	0	1,249	0	0	0	1,249
21	Institutions	0	954,663	2,894	0	(226)	951,769
22	Corporates	0	1,267,571	51,177	0	(15,930)	1,216,394
23	*Of which: SMEs*	0	458,631	31,438	0	(10,673)	427,193
28	Defaulted exposures	70,283	0	37,791	23,245	13,176	32,492
29	Items associated with particularly high risk	0	17,432	0	0	0	17,432
33	Equity instruments	15,616	6,540	15,616	0	0	6,540
34	Other exposures	0	5,537	0	0	0	5,537
35	**Total standardised approach**	**85,900**	**3,202,079**	**107,566**	**23,245**	**(2,950)**	**3,180,412**
36	**Total**	**85,900**	**3,202,079**	**107,566**	**23,245**	**(2,950)**	**3,180,412**
37	Of which: loans	70,283	1,894,095	87,862	23,245	(1,616)	1,876,516
38	Of which: debt securities	0	877,463	897	0	(209)	876,566
39	Of which: off-balance-sheet exposures	0	270,640	3,191	0	(1,124)	267,449

30 Jun 2020		a	b	c	e	f	g
		Gross carrying amount					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges in 1st half of 2020	Net values (a+b-c)
16	Central governments or central banks	0	742,850	46	0	(23)	742,805
17	Regional governments or local authorities	0	71,176	29	0	(14)	71,147
18	Public sector entities	0	16,464	43	0	(21)	16,421
19	Multilateral development banks	0	12,980	0	0	0	12,980
20	International organisations	0	0	0	0	0	0
21	Institutions	0	930,082	2,667	0	(1,221)	927,415
22	Corporates	0	1,071,300	35,299	0	(12,094)	1,036,002
23	*Of which: SMEs*	0	376,030	20,675	0	(8,593)	355,356
28	Defaulted exposures	67,647	0	45,952	23,245	(3,766)	21,696
29	Items associated with particularly high risk	0	7,807	0	0	0	7,807
33	Equity instruments	15,616	6,634	15,616	0	18	6,634
34	Other exposures	0	5,509	0	0	0	5,509
35	**Total standardised approach**	**83,264**	**2,864,803**	**99,652**	**23,245**	**(17,121)**	**2,848,414**
36	**Total**	**83,264**	**2,864,803**	**99,652**	**23,245**	**(17,121)**	**2,848,414**
37	Of which: loans	67,647	1,673,852	81,280	23,245	(16,207)	1,660,219
38	Of which: debt securities	0	715,264	688	0	(378)	714,577
39	Of which: off-balance-sheet exposures	0	276,270	2,068	0	(535)	274,203

6.14 Template 12 – EU CR1-B: Credit quality of exposures by industry or counterparty types

(Article 442(g) of the CRR)

31 Dec 2020	a	b	c	e	f	g
	Gross carrying amount					
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges in 2nd half of 2020	Net values (a+b-c)
Financial and insurance activities	16,101	1,155,384	18,694	0	(188)	1,152,791
Public administration and defence, compulsory social security	0	809,305	74	0	5	809,231
Manufacturing	13,943	469,428	37,859	7,718	(6,643)	445,511
Transportation and storage	6,411	176,121	2,009	0	1,761	180,523
Wholesale and retail trade (maintenance and repair of motor vehicles)	31,320	146,634	19,576	0	10,945	158,377
Other	18,126	445,207	29,354	15,527	(8,830)	433,979
Total	**85,900**	**3,202,079**	**107,566**	**23,245**	**(2,950)**	**3,180,412**

30 Jun 2020	a Gross carrying amount Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	e Accumulated write-offs	f Credit risk adjustment charges in 1st half of 2020	g Net values (a+b-c)
Financial and insurance activities	16,099	1,165,384	18,501	0	(1,268)	1,162,982
Public administration and defence, compulsory social security	0	646,625	79	0	(40)	646,546
Manufacturing	11,791	401,708	29,424	7,718	(5,720)	384,075
Transportation and storage	6,285	155,018	3,711	0	(2,106)	157,592
Electricity, gas, steam and air conditioning supply	0	169,635	676	0	(223)	168,959
Other	49,089	326,432	47,261	15,527	(7,765)	328,261
Total	**83,264**	**2,864,803**	**99,652**	**23,245**	**(17,121)**	**2,848,414**

6.15 Template 13 – EU CR1-C: Credit quality of exposures by geography

(Article 442(h) of the CRR)

31 Dec 2020	a Gross carrying amount Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	e Accumulated write-offs	f Credit risk adjustment charges in 2nd half of 2020	g Net values (a+b-c)
Slovenia	74,125	2,478,175	100,132	23,245	(5,877)	2,452,168
Other EU Member States	11,495	647,038	5,197	0	4,425	653,337
Other European countries	279	57,413	427	0	(233)	57,265
Other countries	0	19,453	1,811	0	(1,264)	17,642
Total	**85,900**	**3,202,079**	**107,566**	**23,245**	**(2,950)**	**3,180,412**

30 Jun 2020	a Gross carrying amount Defaulted exposures	b Non-defaulted exposures	c Specific credit risk adjustment	e Accumulated write-offs	f Credit risk adjustment charges in 1st half of 2020	g Net values (a+b-c)
Slovenia	71,718	2,292,697	90,482	23,245	(16,366)	2,273,933
Other EU Member States	10,934	495,747	8,071	0	(891)	498,611
Other European countries	611	55,665	526	0	10	55,750
Other countries	0	20,693	573	0	126	20,120
Total	**83,264**	**2,864,803**	**99,652**	**23,245**	**(17,121)**	**2,848,414**

Templates 11, 12 and 13 illustrate on-balance-sheet and off-balance-sheet gross and net exposures. Provisions for off-balance-sheet liabilities are disclosed under specific credit risk adjustments.

The specific credit risk adjustment in the amount of EUR 107,566 thousand includes the balance of the capital investment adjustment in the amount of EUR 15,616 thousand, impairments and provisions created in connection with loans and other financial assets in the amount of EUR 76,504 thousand, and the balance of deviations and credit risk adjustments for financial assets measured at fair value in the amount of EUR 15,446 thousand.

Credit risk adjustment charges totalled EUR 20,071 thousand in 2020, with EUR 2,950 thousand of that amount coming during the second half of the year. Value adjustments created due to credit risk comprise expenses in connection with the impairment of loans and other financial assets measured at amortised cost, provisions for off-balance-sheet exposures, and losses and gains from credit risk for financial assets measured at fair value.

Accumulated write-offs in the amount of EUR 23,245 thousand relate to the stock of claims written-off in periods prior to 31 December 2020, and for which recovery proceedings have not been completed. The Bank accounts for those claims in off-balance-sheet records.

6.16 Template 16 – EU CR 2-A: Changes in the stock of general and specific credit risk adjustments

(Article 442(i) of the CRR)

		31 Dec 2020 Accumulated specific credit risk adjustment	30 Jun 2020 Accumulated specific credit risk adjustment
1	Opening balance	81,968	64,921
2	Increases due to amounts set aside for estimated loan losses during the period	31,435	27,625
3	Decreases due to amounts reversed for estimated loan losses during the period	(29,609)	(11,039)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(6,013)	(1)
6	Impact of exchange rate differences	16	2
8	Other adjustments	10,962	461
9	**Closing balance**	**88,759**	**81,968**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0	2

The table shows stocks and flows in the credit risk adjustments of financial assets (loans granted and debt securities), excluding provisions for off-balance sheet items. In accordance with the amended methodology, excluded income is disclosed as impairments. The change is disclosed in other adjustments in the table of changes in value adjustments.

6.17 Template 17 – EU CR2-B: Changes in the stock of defaulted and impaired loans and debt securities

		a
31 Dec 2020		Gross carrying value of defaulted exposures
1	Opening balance as at 1 July	67,647
2	Loans and debt securities that have defaulted or impaired since the last reporting period	578
3	Returned to non-defaulted status	(56)
4	Amounts written off	(4,837)
5	Other changes	6,950
6	**Closing balance**	**70,283**

		a
30 Jun 2020		Gross carrying value of defaulted exposures
1	Opening balance as at 1 January	68,863
2	Loans and debt securities that have defaulted or impaired since the last reporting period	1,580
3	Returned to non-defaulted status	(23)
4	Amounts written off	0
5	Other changes	(2,773)
6	**Closing balance**	**67,647**

6.18 Template 18 – EU CR3: CRM techniques – Overview

(Article 453(g) of the CRR)

Total exposures secured by financial guarantees

	31 Dec 2020			30 Jun 2020		
	Exposures unsecured – carrying amount	Exposures secured	Exposures secured by financial guarantees	Exposures unsecured – carrying amount	Exposures secured	Exposures secured by financial guarantees
Total loans	1,876,516	0	0	1,660,219	0	0
Total debt securities	876,566	0	0	714,577	0	0
Total exposures	**2,753,082**	**0**	**0**	**2,374,796**	**0**	**0**
Of which defaulted	32,492	0	0	21,696	0	0

The template above shows the carrying amount of loans and debt securities. The Bank does not take into account collateral received for credit risk mitigation purposes in the calculation of capital requirements, except when it is evident from the specific nature of a certain product that an exposure itself does not represent credit risk, where it is known in advance that losses would not be charged to the Bank's capital, even if the effects of collateral are not taken into account. The management of credit protection is described in detail in section 3.1 of the financial report.

6.19 Template 19 – EU CR4: Standardised approach – Credit risk exposure and CRM effects

(Article 453(f) and (g) of the CRR)

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
31 Dec 2020		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	785,775	20,371	785,775	29,242	7,435	0.9 %
2	Regional governments or local authorities	103,405	4,523	103,405	2,262	21,133	20.0 %
3	Public sector entities	17,549	4,867	17,549	2,434	3,997	20.0 %
4	Multilateral development banks	508	12,000	508	12,000	2,400	19.2 %
5	International organisations	1,249	0	1,249	0	0	0.0 %
6	Institutions	918,633	33,135	918,633	16,007	215,049	23.0 %
7	Corporates	1,016,093	200,301	1,016,093	137,554	1,153,647	100.0 %
10	Defaulted exposures	32,492	0	32,492	0	33,168	102.1 %
11	Exposures associated with particularly high risk	17,432	0	17,432	0	26,148	150.0 %
15	Equity instruments	6,540	0	6,540	0	6,540	100.0 %
16	Other exposures	5,537	0	5,537	0	5,537	100.0 %
17	**Total**	**2,905,214**	**275,199**	**2,905,214**	**199,498**	**1,475,052**	**47.5 %**

30 Jun 2020		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM			
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments and central banks	722,433	20,371	722,433	20,371	7,583	1.0 %
2	Regional governments or local authorities	62,571	8,576	62,571	4,288	13,372	20.0 %
3	Public sector entities	16,421	0	16,421	0	3,284	20.0 %
4	Multilateral development banks	980	12,000	980	12,000	2,400	18.5 %
5	International organisations	0	0	0	0	0	0 %
6	Institutions	915,258	12,157	915,258	6,478	213,522	23.2 %
7	Corporates	814,103	221,899	814,103	142,107	956,210	100.0 %
10	Defaulted exposures	21,696	0	21,696	0	25,299	116.6 %
11	Exposures associated with particularly high risk	7,807	0	7,807	0	11,711	150.0 %
15	Equity instruments	6,634	0	6,634	0	6,634	100.0 %
16	Other exposures	5,509	0	5,509	0	5,509	100.0 %
17	**Total**	**2,573,412**	**275,003**	**2,573,412**	**185,244**	**1,245,523**	**45.1 %**

The template shows on-balance-sheet and off-balance-sheet exposures by individual class, i.e. net exposures before the application of conversion factors and before the reduction in exposures due to the effects of the use of eligible collateral, exposures after the use thereof, and the amount of risk-weighted assets and RWA density or the average risk weight by individual exposure class.

6.20 Template 20 – EU CR5: Standardised approach – breakdown of exposures with respect to exposure class and risk weight

(Article 444(e) of the CRR)

31 Dec 2020		Risk weight								
		0 %	20 %	50 %	100 %	150 %	250 %	Total	Of which unrated	Deducted
1	Central governments or central banks	777,840	37,176	0	0	0	0	815,017	815,017	(620)
2	Regional governments or local authorities	0	105,667	0	0	0	0	105,667	105,667	(2)
3	Public sector entities	0	19,983	0	0	0	0	19,983	19,983	0
4	Multilateral development banks	508	12,000	0	0	0	0	12,508	12,508	0
5	International organisations	1,249	0	0	0	0	0	1,249	1,249	(1)
6	Institutions	0	899,490	0	35,151	0	0	934,641	934,641	(136)
7	Corporates	0	0	0	1,153,647	0	0	1,153,647	1,153,647	(119)
10	Defaulted exposures	0	0	0	31,141	1,351	0	32,492	32,492	(18)
11	Exposures associated with particularly high risk	0	0	0	0	17,432	0	17,432	17,432	(17)
15	Equity instruments	0	0	0	6,540	0	0	6,540	6,540	(7)
16	Other exposures	0	0	0	5,537	0	0	5,537	5,537	(992)
17	**Total**	**779,598**	**1,074,317**	**0**	**1,232,014**	**18,783**	**0**	**3,104,712**	**3,104,712**	**(1,912)**

30 Jun 2020		Risk weight 0 %	20 %	50 %	100 %	150 %	250 %	Total	Of which unrated	Deducted
1	Central governments or central banks	720,594	20,845	0	0	0	1,365	742,805	742,805	(500)
2	Regional governments or local authorities	0	66,859	0	0	0	0	66,859	66,859	(2)
3	Public sector entities	0	16,421	0	0	0	0	16,421	16,421	0
4	Multilateral development banks	980	12,000	0	0	0	0	12,980	12,980	0
5	International organisations	0	0	0	0	0	0	0	0	0
6	Institutions	0	885,268	0	36,468	0	0	921,737	921,737	(139)
7	Corporates	0	0	0	956,210	0	0	956,210	956,210	(74)
10	Defaulted exposures	0	0	0	14,489	7,206	0	21,696	21,696	(8)
11	Exposures associated with particularly high risk	0	0	0	0	7,807	0	7,807	7,807	(8)
15	Equity instruments	0	0	0	6,634	0	0	6,634	6,634	(7)
16	Other exposures	0	0	0	5,509	0	0	5,509	5,509	(931)
17	**Total**	**721,574**	**1,001,393**	**0**	**1,019,310**	**15,014**	**1,365**	**2,758,656**	**2,758,656**	**(1,670)**

Deductions from capital include deductions arising from intangible assets and deductions arising from adjustments to the value of assets disclosed at fair value due to prudential valuation requirements.

6.21 Template 25 – EU CCR1: Analysis of CCR exposure by approach

(Article 439(e), (f) and (i) of the CRR)

31 Dec 2020		Notional amount	EAD post CRM	RWAs
2	Original exposure	190,000	7,750	1,550
11	**Total**	**190,000**	**7,750**	**1,550**

30 Jun 2020		Notional amount	EAD post CRM	RWAs
2	Original exposure	15,000	800	160
11	**Total**	**15,000**	**800**	**160**

The Bank issued bonds in the amount of EUR 350 million on the international financial markets at the beginning of July 2020. For this reason, the Bank concluded new interest rate swaps in the nominal amount of EUR 175 million with the aim of hedging interest rate risk.

6.22 Template 26 – EU CCR2: CVA capital charge

(Article 439(f) of the CRR)

		31 Dec 2020 Exposure value	31 Dec 2020 RWAs	30 Jun 2020 Exposure value	30 Jun 2020 RWAs
4	All portfolios subject to the standardised method	7,750	6,925	800	1,075
5	Total subject to the CVA capital charge	7,750	6,925	800	1,075

6.23 Template 32 – EU CCR5–B: Composition of collateral for exposures to CCR

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31 Dec 2020	Segregated	Unsegregated	Segregated	Unsegregated
Deposits	0	0	0	919
Total	**0**	**0**	**0**	**919**

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
30 Jun 2020	Segregated	Unsegregated	Segregated	Unsegregated
Deposits	0	0	0	919
Total	**0**	**0**	**0**	**919**

6.24 Encumbered and unencumbered assets

(Article 443 of the CRR)

The table below shows the medians of consecutive quarterly mean values of the Bank's encumbered and unencumbered assets over a 12-month period using interpolation. The Bank has assets (eligible debt securities and loans that are disclosed in the table in other assets) pledged at the central bank as collateral for a loan received from the drawdown of targeted longer-term refinancing operations (TLTRO-III) from Bank of Slovenia and the ECB. The balance of the loan was EUR 334.9 million as at 31 December 2020. Variation margin assets used to manage mutual exposure under Credit Support Annex (CSA) agreements and the reserve requirement held at Bank of Slovenia are also disclosed as encumbered assets.

The Bank does not have encumbered collateral received that it has or could encumber.

	Encumbered assets		Unencumbered assets	
31 Dec 2020	Carrying amount	Fair value	Carrying amount	Fair value
Assets	**284,758**		**2,373,741**	
Equity instruments	0		16,066	
Debt securities	202,521	202,521	521,581	521,581
of which: securities issued by the government sector	154,344	154,344	345,128	345,128
of which: securities issued by financial corporations	25,911	25,911	125,399	125,399
of which: securities issued by non-financial corporations	22,266	22,266	51,054	51,054
Other assets	82,237		1,836,094	

	Encumbered assets		Unencumbered assets	
30 Jun 2020	Carrying amount	Fair value	Carrying amount	Fair value
Assets	**198,576**		**2,253,020**	
Equity instruments	0		13,911	
Debt securities	130,776	130,776	518,351	518,351
of which: securities issued by the government sector	99,904	99,904	366,125	366,125
of which: securities issued by financial corporations	21,067	21,067	114,695	114,695
of which: securities issued by non-financial corporations	9,806	9,806	37,531	37,531
Other assets	67,799		1,720,758	

6.25 Exposures in equities not included in the trading book

(Article 447 of the CRR)

	31 Dec 2020	31 Dec 2019
Carrying amount	23,972	11,305
Realised gains/losses	0	2,232

The Bank discloses an investment in the Three Seas Initiative Investment Fund in the amount of EUR 8,066 thousand and investments in equity financing instruments in the total amount of EUR 9,366 thousand in equity instruments that are not included in the trading book and that are mandatorily measured at fair value through profit or loss. The amount of EUR 6,540 thousand relates to an investment in EIF shares that is measured at fair value through other comprehensive income. Shares are not listed on the stock exchange.

In 2020, the Bank did not sell investments in equity instruments not included in the trading book.

6.26 Leverage ratio

(Article 451 of the CRR)

Summary of reconciliation of accounting assets and leverage ratio exposure measure

		31 Dec 2020	30 Jun 2020
1	Total assets as per published financial statements	3,176,498	2,850,613
4	Adjustments for derivative financial instruments	(6,597)	(800)
6	Adjustment for off-balance-sheet items (i.e. conversion to credit equivalent amounts of off-balance-sheet exposures)	(78,892)	(91,826)
7	Other adjustments	10,466	(3,133)
8	**Total leverage ratio exposure**	**3,101,475**	**2,754,854**

Leverage ratio: common disclosure

		31 Dec 2020	30 Jun 2020
On-balance-sheet exposures (excluding derivatives and SFTs)			
1	On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,905,214	2,573,412
2	(Asset amounts deducted in determining Tier 1 capital)	(3,237)	(3,802)
3	Total on-balance-sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2,901,977	2,569,610
Derivative exposures			
EU-5a	Exposure determined under original exposure method	7,750	800
11	Total derivative exposures (sum of lines 4 to 10)	7,750	800
Other off-balance-sheet exposures			
17	Off-balance-sheet exposures at gross notional amount	270,640	276,270
18	(Adjustments for conversion to credit equivalent amounts)	(78,892)	(91,826)
19	Other off-balance-sheet exposures (sum of lines 17 and 18)	191,748	184,444
Capital and total exposures			
20	Tier 1 capital	457,114	436,339
21	Total leverage ratio exposures (sum of lines 3, 11 and 19)	3,101,475	2,754,854
Leverage ratio			
22	**Leverage ratio**	**14.74 %**	**15.84 %**

Breakdown of on-balance-sheet exposures

		31 Dec 2020	30 Jun 2020
EU-1	**Total on-balance sheet-exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**2,905,214**	**2,573,412**
EU-3	Banking book exposures, of which:	2,905,214	2,573,412
EU-5	Exposures treated as sovereigns	787,532	723,413
EU-6	Exposures to regional governments, MDBs, international organisations and PSEs not treated as sovereigns	120,955	78,992
EU-7	Institutions	918,633	915,258
EU-10	Corporates	1,016,093	814,103
EU-11	Defaulted exposures	32,492	21,696
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	29,508	19,950

7 Disclosure of non-performing and forborne exposures

In accordance with EBA guidelines (EBA/GL/2018/10), information regarding non-performing and forborne exposures is presented in the templates below.

The NPL ratio was 3.58% as at 31 December 2020 (30 June 2020: 3.88%).

The Bank did not hold repossessed or seized collateral as at 31 December 2020.

7.1 Template 1 – Credit quality of forborne exposures

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
31 Dec 2020		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	Performing forborne	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	645	59,909	59,909	59,909	(42)	(28,450)	10,698	10,168
3	General governments	0	7,394	7,394	7,394	0	(7,394)	0	0
5	Other financial corporations	0	484	484	484	0	(135)	0	0
6	Non-financial corporations	645	52,031	52,031	52,031	(42)	(20,921)	10,698	10,168
7	Households	0	0	0	0	0	0	0	0
10	**Total**	**645**	**59,909**	**59,909**	**59,909**	**(42)**	**(28,450)**	**10,698**	**10,168**

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
30 Jun 2020		Performing forborne	Total	Of which defaulted	Of which impaired	On performing forborne exposures	Performing forborne	Total	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	**Loans and advances**	**202**	**54,179**	**54,179**	**54,179**	**0**	**(33,987)**	**16,494**	**16,298**
3	General governments	0	5,000	5,000	5,000	0	(5,000)	0	0
5	Other financial corporations	0	483	483	483	0	(162)	0	0
6	Non-financial corporations	202	48,687	48,687	48,687	0	(28,818)	16,494	16,298
7	Households	0	10	10	10	0	(7)	0	0
10	**Total**	**202**	**54,179**	**54,179**	**54,179**	**0**	**(33,987)**	**16,494**	**16,298**

7.2 Template 3 – Credit quality of performing and non-performing exposures in terms of number of days in arrears

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Performing exposures								
	31 Dec 2020	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**1,894,095**	**1,894,048**	**47**	**70,283**	**50,317**	**20**	**183**	**2,932**	**3,524**	**5,914**	**7,394**	**70,283**
3	General governments	162,988	162,988	0	7,394	0	0	0	0	0	0	7,394	7,394
4	Credit institutions	786,978	786,978	0	0	0	0	0	0	0	0	0	0
5	Other financial corporations	20	20	0	484	484	0	0	0	0	0	0	484
6	Non-financial corporations	941,277	941,230	47	62,405	49,833	20	183	2,932	3,524	5,914	0	62,405
7	*Of which SMEs*	407,291	407,245	47	16,701	11,502	20	183	1,950	1,649	1,397	0	16,701
8	Households	2,831	2,831	0	0	0	0	0	0	0	0	0	0
9	**Debt Securities**	**877,463**	**877,463**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
11	General governments	623,346	623,346	0	0	0	0	0	0	0	0	0	0
12	Credit institutions	134,126	134,126	0	0	0	0	0	0	0	0	0	0
13	Other financial corporations	17,026	17,026	0	0	0	0	0	0	0	0	0	0
14	Non-financial corporations	102,965	102,965	0	0	0	0	0	0	0	0	0	0
15	**Off-balance-sheet exposures**	**270,640**			**0**								**0**
17	General governments	29,764			0								0
18	Credit institutions	37,432			0								0
19	Other financial corporations	14,934			0								0
20	Non-financial corporations	188,390			0								0
21	Households	120			0								0
22	**Total**	**3,042,198**	**2,771,511**	**47**	**70,283**	**50,317**	**20**	**183**	**2,932**	**3,524**	**5,914**	**7,394**	**70,283**

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Performing exposures								
30 Jun 2020		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	**Loans and advances**	**1,673,852**	**1,660,972**	**1,153**	**67,647**	**46,973**	**440**	**2,465**	**1,640**	**3,364**	**7,765**	**5,000**	**67,647**
3	General governments	120,468	120,468	0	5,000	0	0	0	0	0	0	5,000	5,000
4	Credit institutions	790,204	790,204	0	0	0	0	0	0	0	0	0	0
5	Other financial corporations	13	13	0	483	483	0	0	0	0	0	0	483
6	Non-financial corporations	761,166	748,286	1,153	62,155	46,480	440	2,465	1,640	3,364	7,765	0	62,155
7	*Of which SMEs*	318,988	318,756	232	17,548	10,014	440	2,465	1,231	2,319	1,079	0	17,548
8	Households	2,001	2,001	0	10	10	0	0	0	0	0	0	10
9	**Debt Securities**	**715,264**	**715,264**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
11	General governments	502,730	502,730	0	0	0	0	0	0	0	0	0	0
12	Credit institutions	138,378	138,378	0	0	0	0	0	0	0	0	0	0
13	Other financial corporations	8,672	8,672	0	0	0	0	0	0	0	0	0	0
14	Non-financial corporations	65,484	65,484	0	0	0	0	0	0	0	0	0	0
15	**Off-balance-sheet exposures**	**276,270**			**0**								**0**
17	General governments	28,949			0								0
18	Credit institutions	23,367			0								0
19	Other financial corporations	0			0								0
20	Non-financial corporations	223,872			0								0
21	Households	81			0								0
22	**Total**	**2,665,387**	**2,376,236**	**1,153**	**67,647**	**46,973**	**440**	**2,465**	**1,640**	**3,364**	**7,765**	**5,000**	**67,647**

7.3 Template 4 –Performing and non-performing exposures, and associated corrections, value adjustments and provisions

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off		
31 Dec 2020		Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 1	Of which Stage 2	Performing exposures	Non-performing exposures	Performing exposures – accumulated impairment and provisions
1	**Loans and advances**	**1,894,095**	**1,697,675**	**196,419**	**70,283**	**0**	**70,283**	**(50,070)**	**(16,259)**	**(33,811)**	**(37,791)**	**0**	**(37,791)**	**0**	**463,581**	**10,903**
3	General governments	162,988	162,988	0	7,394	0	7,394	(45)	(45)	0	(7,394)	0	(7,394)	0	0	0
4	Credit institutions	786,978	786,978	0	0	0	0	(2,746)	(2,746)	0	0	0	0	0	30,773	0
5	Other financial corporations	20	20	0	484	0	484	0	0	0	(135)	0	(135)	0	0	0
6	Non-financial corporations	941,277	746,337	194,940	62,405	0	62,405	(47,052)	(13,427)	(33,624)	(30,263)	0	(30,263)	0	430,742	10,903
7	*Of which SMEs*	407,291	311,910	95,381	16,701	0	16,701	(29,687)	(9,813)	(19,874)	(10,199)	0	(10,199)	0	240,298	4,552
8	Households	2,831	1,352	1,479	0	0	0	(228)	(41)	(187)	0	0	0	0	2,066	0
9	**Debt Securities**	**877,463**	**877,463**	**0**	**0**	**0**	**0**	**(897)**	**(897)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
11	General governments	623,346	623,346	0	0	0	0	(40)	(40)	0	0	0	0	0	0	0
12	Credit institutions	134,126	134,126	0	0	0	0	(102)	(102)	0	0	0	0	0	0	0
13	Other financial corporations	17,026	17,026	0	0	0	0	(36)	(36)	0	0	0	0	0	0	0
14	Non-financial corporations	102,965	102,965	0	0	0	0	(719)	(719)	0	0	0	0	0	0	0
15	**Off-balance-sheet exposures**	**270,640**	**248,219**	**22,421**	**0**	**0**	**0**	**(3,191)**	**(1,113)**	**(2,079)**	**0**	**0**	**0**		**63,413**	**0**
17	General governments	29,764	29,764	0	0	0	0	(2)	(2)	0	0	0	0		0	0
18	Credit institutions	37,432	37,432	0	0	0	0	(47)	(47)	0	0	0	0		8,870	0
19	Other financial corporations	14,934	14,934	0	0	0	0	0	0	0	0	0	0		0	0
20	Non-financial corporations	188,390	165,969	22,421	0	0	0	(3,142)	(1,063)	(2,079)	0	0	0		54,542	0
21	Households	120	120	0	0	0	0	(1)	(1)	0	0	0	0		0	0
22	**Total**	**3,042,198**	**2,823,358**	**218,840**	**70,283**	**0**	**70,283**	**(54,159)**	**(18,269)**	**(35,890)**	**(37,791)**	**0**	**(37,791)**	**0**	**526,993**	**10,903**

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off		
30 Jun 2020		Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 1	Of which Stage 2	Total	Of which Stage 1	Of which Stage 2	Performing exposures Performing exposures	Non-performing exposures	Performing exposures – accumulated impairment and provisions
1	**Loans and advances**	**1,673,852**	**1,577,948**	**95,904**	**67,647**	**0**	**67,647**	**(35,329)**	**(13,934)**	**(21,395)**	**(45,952)**	**0**	**(45,952)**	**0**	**378,678**	**17,515**
3	General governments	120,468	120,468	0	5,000	0	5,000	(75)	(75)	0	(5,000)	0	(5,000)	0	77	0
4	Credit institutions	790,204	790,204	0	0	0	0	(2,569)	(2,569)	0	0	0	0	0	31,432	0
5	Other financial corporations	13	13	0	483	0	483	0	0	0	(162)	0	(162)	0	0	0
6	Non-financial corporations	761,166	665,262	95,904	62,155	0	62,155	(32,630)	(11,235)	(21,395)	(40,783)	0	(40,783)	0	346,564	17,515
7	*Of which SMEs*	318,988	268,315	50,673	17,548	0	17,548	(19,745)	(7,615)	(12,131)	(11,474)	0	(11,474)	0	178,465	4,762
8	Households	2,001	2,001	0	10	0	10	(55)	(55)	0	(7)	0	(7)	0	605	0
9	**Debt Securities**	**715,264**	**715,264**	**0**	**0**	**0**	**0**	**(688)**	**(688)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
11	General governments	502,730	502,730	0	0	0	0	(41)	(41)	0	0	0	0	0	0	0
12	Credit institutions	138,378	138,378	0	0	0	0	(89)	(89)	0	0	0	0	0	0	0
13	Other financial corporations	8,672	8,672	0	0	0	0	(16)	(16)	0	0	0	0	0	0	0
14	Non-financial corporations	65,484	65,484	0	0	0	0	(542)	(542)	0	0	0	0	0	0	0
15	**Off-balance-sheet exposures**	**276,270**	**275,750**	**520**	**0**	**0**	**0**	**(2,068)**	**(1,987)**	**(80)**	**0**	**0**	**0**		**59,443**	**0**
17	General governments	28,949	28,949	0	0	0	0	(2)	(2)	0	0	0	0		0	0
18	Credit institutions	23,367	23,367	0	0	0	0	(11)	(11)	0	0	0	0		0	0
19	Other financial corporations	0	0	0	0	0	0	0	0	0	0	0	0		0	0
20	Non-financial corporations	223,872	223,352	520	0	0	0	(2,053)	(1,973)	(80)	0	0	0		59,443	0
21	Households	81	81	0	0	0	0	(2)	(2)	0	0	0	0		0	0
22	**Total**	**2,665,387**	**2,568,962**	**96,424**	**67,647**	**0**	**67,647**	**(38,084)**	**(16,609)**	**(21,475)**	**(45,952)**	**0**	**(45,952)**	**0**	**438,121**	**17,515**

8 Disclosure of exposures subject to measures applied in response to the COVID-19 pandemic

Information according to the EBA's Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) are presented in Templates 1 and 2 below. Included are moratoria concluded in accordance with the relevant law and other moratoria concluded as the consequence of the COVID-19 pandemic. As at 31 December 2020, loans issued by the Bank as a response to the COVID-19 crisis were not yet included in new guarantee schemes that are the subject of disclosures in Template 3 (Information regarding newly approved loans and other financial assets issued based on new public guarantee schemes implemented as a response to the COVID-19 crisis).

8.1 Template 1 – Information on loans and advances subject to legislative and non-legislative moratoria

	a	b	d	e	f	g	h	i	k	l	m	n	o
	Gross carrying amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount
		Performing		Non-performing				Performing		Non-performing			
31 Dec 2020	Total	Total	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days	Total	Total	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days	Inflows to non-performing exposures
1 Loans and advances subject to moratorium	143,297	129,695	66,490	13,602	13,251	13,602	(14,309)	(11,007)	(8,620)	(3,302)	(3,148)	(3,302)	44
4 of which: Non-financial corporations	143,297	129,695	66,490	13,602	13,251	13,602	(14,309)	(11,007)	(8,620)	(3,302)	(3,148)	(3,302)	44
5 of which: Small and Medium-sized Enterprises	53,304	45,869	26,607	7,436	7,086	7,436	(9,593)	(6,156)	(5,289)	(3,437)	(3,283)	(3,437)	44
6 of which: Collateralised by commercial immovable property	128,355	115,311	58,587	13,044	13,044	13,044	(13,002)	(9,965)	(7,912)	(3,037)	(3,037)	(3,037)	0

30 Jun 2020	a	b	d	e	f	g	h	i	k	l	m	n	o
	Gross carrying amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk						Gross carrying amount
		Performing		Non-performing				Performing		Non-performing			
	Total	Total	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days	Total	Total	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Total	Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days	Inflows to non-performing exposures
1 Loans and advances subject to moratorium	120,956	113,809	44,950	7,147	6,846	7,147	(12,741)	(11,957)	(10,402)	(784)	(745)	(784)	0
4 of which: Non-financial corporations	120,956	113,809	44,950	7,147	6,846	7,147	(12,741)	(11,957)	(10,402)	(784)	(745)	(784)	0
5 of which: Small and Medium-sized Enterprises	33,155	31,961	5,865	1,193	893	1,193	(2,389)	(2,240)	(1,441)	(148)	(109)	(148)	0
6 of which: Collateralised by commercial immovable property	67,509	60,901	2,401	6,608	6,608	6,608	(2,744)	(2,051)	(715)	(693)	(693)	(693)	0

8.2 Template 2 – Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

		a	b	c	d	e	f	g	h	i
			Gross carrying amount							
						Residual maturity of moratoria				
31 Dec 2020		Number of obligors	Total	Of which: legislative moratoria	Of which: expired	≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
1	Loans and advances for which moratorium was offered	91	195,920							
2	Loans and advances subject to moratorium (granted)	84	184,737	184,737	41,440	42,360	68,440	15,838	16,659	0
5	of which: Non-financial corporations		184,737	184,737	41,440	42,360	68,440	15,838	16,659	0
6	*of which: Small and Medium-sized Enterprises*		61,538	61,538	8,234	1,617	26,534	15,838	9,314	0
7	*of which: Collateralised by commercial immovable property*		135,779	135,779	7,424	42,360	56,173	13,413	16,409	0

		a	b	c	d	e	f	g	h	i
			Gross carrying amount							
						Residual maturity of moratoria				
30 Jun 2020		Number of obligors	Total	Of which: legislative moratoria	Of which: expired	≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
1	Loans and advances for which moratorium was offered	78	134,101							
2	Loans and advances subject to moratorium (granted)	73	120,956	120,956	1,920	0	6,097	12,863	99,076	1,001
5	of which: Non-financial corporations		120,956	120,956	1,920	0	6,097	12,863	99,076	1,001
6	*of which: Small and Medium-sized Enterprises*		33,155	33,155	1,920	0	5,562	875	23,797	1,001
7	*of which: Collateralised by commercial immovable property*		67,509	67,509	1,920	0	4,607	12,863	48,119	0

List of all disclosures required under Part 8 of the Regulation (EU) no. 575/2013

Article	Requirement	Section of annual report	Chapter	Page
435	**Risk management policies and objectives**			
1.	**Risk management objectives and policies**			
	(a) the strategies and processes to manage those risks	BUS FIN	Risk management 3	58 – 67 168 – 173
	(b) the structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	BUS FIN	Risk management 3	58 – 60 168 – 173
	(c) the scope and nature of risk reporting and measurement systems	BUS FIN FIN FIN FIN FIN FIN FIN	Risk management 3 3.1 3.2 3.3 3.4 3.5 3.6	58 – 60 168 – 173 173 – 196 196 – 201 201 – 204 204 – 205 205 – 208 208 – 212
	(d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	FIN FIN	2.3.9 3.3	130 – 131 202
	(e) a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	BUS	Declaration of the management body on the adequacy of the risk management framework	68
	(f) a concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. This statement shall include key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	FIN	4	216 – 219
2.	**Information regarding governance arrangements**			
	(a) the number of directorships held by members of the management body	FIN	6.2	226
	(b) the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BUS	Corporate governance statement	39
	(c) the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	BUS	Corporate governance statement	32 – 46
	(d) whether or not the institution has set up a separate risk committee and the number of times the risk committee has met	FIN	3	172
	(e) the description of the information flow on risk to the management body	BUS FIN	Risk management 3	58 – 59 169 – 173
436	**Scope of application**			
	(a) the name of the institution to which the requirements of this Regulation apply	FIN	2.3.3	119 – 120
	(b) an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are fully consolidated, proportionally consolidated, deducted from own funds, neither consolidated nor deducted	FIN FIN	2.3.3 6.6 6.7	119 – 120 231 232
	(c) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	N/A		

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	(d) the aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	N/A		
	(e) if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9	N/A		
437	**Own funds**			
	(a) a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution	FIN FIN	3.6 6.4	209 – 210 228
	(b) a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	FIN	6.3	227
	(c) the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	FIN	6.3	227
	(d) separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35 (ii) each deduction made pursuant to Articles 36, 56 and66 (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79	FIN	6.4	228
	(e) a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply	FIN	6.3	227
	(f) where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated	N/A		
438	**Capital requirements**			
	(a) a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	BUS FIN	Risk management 3.6	60 – 61 210 – 211
	(b) upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU	N/A		
	(c) for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112	FIN FIN FIN	3.6 6.8 6.9	209 – 210 233 233
	(d) for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 147 The institutions calculating the risk-weighted exposure amounts in accordance with Article 153(5) or Article 155(2) shall disclose the exposures assigned to each category in Table 1 of Article 153(5), or to each risk weight mentioned in Article 155(2)	N/A		
	(e) own funds requirements calculated in accordance with points (b) and (c) of Article 92(3) (1) position risk (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits (3) currency risk (4) settlement risk (5) commodities risk	FIN FIN	3.6 6.8	209 – 210 233
	(f) own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately	FIN	6.8	233
439	**Exposure to counterparty credit risk**			
	(a) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures	FIN FIN	3.1 3.6	195 – 196 209 – 210
	(b) a discussion of policies for securing collateral and establishing credit reserves	FIN	3.1	195 – 196
	(c) a discussion of policies with respect to wrong-way risk exposures	FIN	3.1	195 – 196

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	(d) a discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	FIN	3.1	195 – 165
	(e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements	FIN FIN	6.21 6.23	243 244
	(f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable	FIN FIN	6.21 6.22	243 243
	(g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure	N/A		
	(h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group	N/A		
	(i) the estimate of α if the institution has received the permission of the competent authorities to estimate α	N/A		
440	**Capital buffers**	FIN	3.6	211 – 212
	1 the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	FIN	6.5	229 – 230
	2 the amount of its institution-specific countercyclical capital buffer.	FIN	6.5	230
441	**Indicators of global systemic importance**	N/A		
442	**Credit risk adjustments**			
	(a) the definitions for accounting purposes of "past due" and "impaired"	FIN FIN	2.3.8 3.1	126 183 – 184
	(b) a description of the approaches and methods adopted for determining specific and general credit risk adjustments	FIN FIN	2.3.8 3.1	125 – 129 176
	(c) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	FIN	6.9	233
	(d) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	FIN	6.10	234
	(e) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	FIN	6.11	235
	(f) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	FIN	6.12	236
	(g) by significant industry or counterparty type, the amount of: – impaired exposures and past due exposures, provided separately – specific and general credit risk adjustments – charges for specific and general credit risk adjustments during the reporting period	FIN FIN	6.13 6.14	237 – 238 238 – 239
	(h) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	FIN	6.15	239 – 240
	(i) the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately – a description of the type of specific and general credit risk adjustments – the opening balances – the amounts taken against the credit risk adjustments during the reporting period	FIN FIN FIN	6.16 6.17 2.4.4	240 240 143 – 147

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	– the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments – the closing balances			
443	**Unencumbered assets**	FIN	6.24	244
444	**Use of ECAIs**			
	(a) the names of the nominated ECAIs and ECAs and the reasons for any changes	FIN	3.6	209
	(b) the exposure classes for which each ECAI or ECA is used		NR	
	(c) a description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book	FIN	3.6	209
	(d) the association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by EBA	N/A		
	(e) the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2 as well as those deducted from own funds	FIN	6.20	242 – 243
445	**Exposure to market risk**	FIN	3.4	204 – 205
446	**Operational risk**	FIN	3.5	205 – 208
447	**Exposures in equities not included in the trading book**			
	(a) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices	FIN	2.3.8	121 – 130
	(b) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value	FIN FIN	2.4.2 2.4.3	141 – 142 142
	(c) the types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	FIN	6.25	245
	(d) the cumulative realised gains or losses arising from sales and liquidations in the period	FIN	6.25	245
	(e) the total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in original of additional own funds	N/A		
448	**Exposure to interest rate risk on positions not included in the trading book**	FIN	3.3	201 – 204
	(a) the nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk (b) the variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency			
449	**Exposure to securitisation positions**	N/A		
450	**Remuneration policy**	FIN	2.6.3	161 – 167
	Institutions shall disclose at least the following information, for those categories of staff whose professional activities have a material impact on its risk profile:			

Article	Requirement	Section of annual report	Chapter	Page
	(a) information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders			
	(b) information on link between pay and performance			
	(c) the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria			
	(d) the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU			
	(e) information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based			
	(f) the main parameters and rationale for any variable component scheme and any other non-cash benefits			
	(g) aggregate quantitative information on remuneration, broken down by business area			
	(h) aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments (EN 27.6.2013; Official Journal of the European Union L 176/261) (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person			
	(i) the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500.000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million			
	(j) upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.			
451	**Leverage**	FIN FIN	3.6 6.26	212 245 – 246
	(a) the leverage ratio and how the institution applies Article 499(2) and (3)			
	(b) a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements			
	(c) where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11)			
	(d) a description of the processes used to manage the risk of excessive leverage			
	(e) a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers			
452	**Use of the IRB Approach to credit risk**	N/A		

Article	Requirement	Section of annual report	Chapter	Page
453	**Use of credit risk mitigation techniques**			
	(a) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance-sheet netting			
	(b) the policies and processes for collateral valuation and management	FIN	3.1	174 – 176
	(c) a description of the main types of collateral taken by the institution	FIN	3.1	174 – 176
	(d) the main types of guarantor and credit derivative counterparty and their creditworthiness	FIN	3.1	195 – 196
	(e) information about market or credit risk concentrations within the credit mitigation taken	FIN	3.1	174 – 176 179 – 180
	(f) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance-sheet netting) that is covered – after the application of volatility adjustments – by eligible financial collateral, and other eligible collateral	FIN FIN	6.18 6.19	241 241 – 242
	(g) for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance-sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155.	FIN FIN	6.18 6.19	241 241 – 242
454	**Use of the Advanced Measurement Approaches to operational risk**	N/A		
455	**Use of Internal Market Risk Models**	N/A		

BUS: Business report
FIN: Financial report
N/A: Not applicable