ANNUAL REPORT OF SID BANK AND THE SID BANK GROUP 2013

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BUSINESS REPORT

Address by the President of the Management Board

To our stakeholders,

In terms of economic and financial conditions 2013 was the most difficult year since Slovenia's independence, which also resulted in reduction of total assets of SID Bank for the first time since its founding. Total assets of SID Bank declined by 7.4 percent to EUR 3,788 million. Due to lower absorption capabilities of the economy and of the banking sector, the insurance business portfolio, which SID Bank performs for the account of the Republic of Slovenia, declined as well. Nevertheless, SID Bank managed to realize most of its strategic goals despite two factors: first, the turbulence in the economic and financial sector especially with the onset of liquidation of two banks and recapitalization of five other banks, which in turn reduced the banking sector by 11 percent, and second, the decline of economic activity, which increased unemployment to 13 percent and decreased total workforce by 2 percent. With this achievement, SID Bank has demonstrated to the Slovenian economy its competence to at least partially mitigate the weight of prolonged negative economic trends and great flexibility of its performance. The latter was achieved by a quick response to difficult economic conditions, seizing upon newly-emerged market gaps, such as financing working capital needs of SMEs, and broadly adapting business model to the new market conditions. To address the shortage of SMEs working capital funding, SID Bank in cooperation with the Ministry of Economic Development and Technology, which contributed part of funds, started a special EUR 500 million loan fund. Apart from this product, also known as financial engineering or blending, SID Bank stepped up other direct lending programmes, predominantly in R&D, energy efficiency and environmental protection. Consequently, direct lending increased to 21.8 percent of the entire loan portfolio. We also adjusted programmes for indirect financing via commercial banks, which accounted for 78.2 percent of loan portfolio. In this way, gross corporate loan portfolio increased by 3 percent to EUR 819 million, while the total amount of all net loans declined by 17.5 percent to EUR 2.8 billion year on year. The decline was expected, given the contraction of corporate economic activity, especially considering its over-leveraged balance sheets and shortage of capital.

SID Bank, notwithstanding difficult economic conditions and lowered sovereign rating, remained present on international financial markets by issuing a three-year Euro bond in the amount of EUR 200 million, followed by two more bond issues in the amount of EUR 100 million and EUR 60 million. Furthermore, intensive cooperation with the partner development banks, such as EIB, KfW and CEB, continued. In addition, we actively managed and reduced the refinancing risk in 2015. Management of liquidity, which at the end of the year reached a quarter of assets, was crucial considering high uncertainty regarding access to financial markets.

Business operation in the name and for the account of the Republic of Slovenia also decreased in line with general trends in Slovenian economy. Despite this, SID Bank achieved satisfactory results in non-marketable risk insurance. The number of beneficiaries increased by more than 100, driven by insurance of export credits and guarantees as well as pre-delivery export risks. The volume of insurance operations totalled EUR 920 million, a decline of 2.4 percent year on year. Consequently, the insurance premium increased by 30 percent to EUR 9.1 million. However, given adverse conditions, claims paid also rose to a record EUR 9.8 million. Nevertheless, technical result amounted to EUR 0.6 million net income, which increased the contingency reserves to EUR 132 million.

Guarantee schemes for corporates and private individuals were carried out only as redemptions of guarantees of the state. The guarantee scheme for investments, with regard to the mentioned decline of investments, did not succeed at a larger scale.

The continued contraction of bank loans is not the primary reason behind the decline of corporate and competitive standings, as the main reason lies with the corporates' lack of capital, delayed adjustment of business models, and poor corporate governance. These problems cannot be resolved by additional lending. To better address these problems, SID Bank has been actively considering starting a mezzanine fund, to which end we placed special attention and resources. The financial result was favourable despite adverse conditions. While interest income declined by 25 percent (to EUR 118 million), interest expenses dropped by 30 percent (to EUR 65 million), primarily driven by fluctuation of interest rates on the market. Net interest income totalling EUR 53 million represents 69 percent of total revenues, whereas net non-interest income of EUR 24 million was in line with expectations. Therefore, the Bank reported a net profit of EUR 4.9 million, which is a solid result considering challenging market conditions. It should be noted that the financial intermediation margin amounted to 1.9 percent. Net interest to average assets ratio amounted to 1.3 percent. The ratio between operating costs and net income remained low (12.2 percent), which points to efficient cost management of the entrusted financial resources.

Risk management in the past year carried additional importance given the volatile conditions in economy and banking. Credit risk was the main focus, as well as operating and liquidity risks. Net impairments and provisions amounted to EUR 61.5 million, representing a 23 percent improvement. The Bank's shareholder equity went up by EUR 5.6 million to EUR 345 million, while capital adequacy ratio increased to 16.5 percent, which is apart from the increase in capital mainly linked to the contraction of the loan portfolio.

In terms of internal growth, paperless operations and employee competency model were introduced and social responsibility was further strengthened.

The aforementioned negative situation in Slovenian economy and uncertainty in the wider European area, especially in the southern part of Europe, also impacted the performance of the SID Bank Group. The latter is especially true for the group companies, operating primarily in south-eastern Europe.

Consequently, Pro Kolekt and CMSR limited their operations but still reported positive results, while Prvi Faktor drastically reduced the scope of its operations and realized a net loss, primarily due to the losses of selected larger Serbian and Slovenian companies, whose receivables were acquired. Our largest subsidiary SID–PKZ performed well and reported a EUR 2.7 million net income, contributing towards SID Bank Group’s profit of EUR 9.9 million and EUR 3.9 billion balance sheet.

The effects of the Group's operations were reflected in provision of EUR 10.8 billion of various financial services pertaining to 2,300 supported companies. This facilitated approximately additional EUR 9 billion in sales for said Slovenian companies, some EUR 4 billion in exports and contributed EUR 3.6 billion to the gross domestic product. SID Bank Group covers about 23 percent of Slovenian export, which is a unique achievement in the world. Especially important is the contribution to creation and sustainment of 18 thousand jobs, as well as regional representation across Slovenia.

The results are a product of extremely diligent and creative work executed by our employees, whom we give our main thanks for our accomplishments in the challenging year of 2013, although also other stakeholders, the owner, the supervisory board, and the economy contributed their part.

The intense growth SID Bank experienced during previous years could not continue, given the wider economic trends. In other words, it is normal to adapt its interventionist role to the current capacities and to conditions in Slovenian economy. Appropriately, it is possible to foresee transformation from quantity to quality, leading to amendments of business model and identification of new products, as well as services for provision of competitive services to the Slovenian economy in order to deliver a greater added value of our services.

We will continue with financial engineering or blending, and offer a new combination of products in cooperation with commercial banks, which will in the best possible way financially strengthen Slovenian companies and their projects, infrastructure and environment, and promote job creation. This depends on the creativity of our employees and also the support of other stakeholders, the owners and companies in which we continue to place our trust also in the future. SID Bank will continue to implement the concept of responsible lending and increase the quality of financial solutions for greater competitiveness and the sustainable development of the Slovenian economy.

Sibil Svilan, M.Sc.

Supervisory Board Report on the Review and Approval of the Annual Report of SID Bank and the SID Bank Group 2013

In 2013 the performance of SID banka d.d, Ljubljana was monitored by the Supervisory Board in the following composition: 1 January 2013 to 21 February 2013 Matej Runjak (president), Janez Tomšič (deputy-president), Marjan Divjak (MSc), Štefan Grosar, Martin Jakše, Robert Ličen (MSc) and Milan Matos. On 21 February 2013 two new members were appointed; Monika Pintar Mesarič, who was also elected president, and Leo Knez (MSc), while Matej Runjak and Robert Ličen (MSc) were discharged. On 6 September 2013 Anton Rop (MSc) was appointed member, while Milan Matos was discharged.

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

Expert support was provided for the Supervisory Board's work in 2013 by two committees. The Audit Committee addressed the relevant issues and drew up positions in the areas of accounting and financial information, risk management and the Bank's risk profile, internal and external auditing, and the functioning of internal controls in particular. The Remuneration and HR Committee provided support in matters relating to the remuneration policy of the banks' employees, particularly in determining the adequacy of the general principles of the remuneration policies and their implementation; in the creation of policies for assessing the adequacy of the members of Management Board and Supervisory Board, and in the evaluation of the work of the Management Board.

In 2013 the Supervisory Board held nine regular sessions and two correspondence sessions, at which it discussed the annual and interim reports on the performance of the Bank and the affiliates of the SID Bank Group, internal audit reports, reports by the compliance office and other departments at the Bank, the assessment of the Bank's risk profile, and other general and specific matters relating to the Bank's operations, and also made decisions on transactions subject to its authority.

The major issues discussed and/or decided on by the Supervisory Board in 2013 were:

- the annual report for 2012 with the auditor's report, and the proposal for the use of the distributable profit for 2012;
- the Bank's action strategy for 2014-2016 and the realisation of the strategic objectives in 2013;
- the annual operational plan with elements of business policy and risk policy and financial plan for 2014;
- the internal audit department's plan of work for 2014 and strategic plan of work for 2014 and 2015, the annual internal audit report for 2012 and the quarterly reports by the internal audit department;
- the compliance office reports and programme of work;
- amendments to the code of ethics and standards and report on the implementation and execution of the code;
- risk management bylaws and the assessment of the Bank's risk profile for 2013;
- the execution of the Bank's borrowing transactions;
- development of new products and funding programs of the Bank.

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

In its session of 7 April 2014 the Supervisory Board discussed and reviewed the annual report of SID banka d.d., Ljubljana and the SID Bank Group for 2013, and the proposal for the use of the distributable profit for 2013 submitted by the Management Board. The Supervisory Board also discussed the independent auditor's report, in which KPMG Slovenija, podjetje za revidiranje, d. o. o. issued an unqualified opinion of the financial statements of SID banka d.d., Ljubljana and the SID Bank Group for

2013. In the opinion of the auditor, the financial statements present in all materially significant aspects a true and fair picture of the financial position of SID banka d.d., Ljubljana and SID Bank Group as at 31 December 2013 and its income and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU, while the information in the business report fully accords with the audited financial statements.

The annual report for 2013, including the independent auditor's report, was discussed by the Audit Committee, the compilation of the annual report was assessed as satisfactory, and the annual report was submitted to the Supervisory Board for approval.

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

After reviewing the annual report of SID banka d.d., Ljubljana and the SID Bank Group for 2013, the Supervisory Board had no reservations or comments, and approved the report unanimously.

Monika Pintar-Mesarič
president of the supervisory board

1 Major Financial Data and Performance Indicators of SID Bank and the SID Bank Group

	SID Bank			SID Bank Group		
EUR thousands	2013	2012	2011	2013	2012	2011
Statement of financial position						
Total assets	3.787.565	4.088.662	4.029.216	3.939.577	4.258.813	4.219.093
Borrowings from banks	1.574.979	1.924.619	1.966.530	1.658.142	2.030.232	2.091.001
Deposits by non-banking sectors	6	5	5	6	5	5
Total equity	345.793	340.224	332.008	373.964	363.175	352.439
Loans to banks	2.614.504	3.031.156	2.997.154	2.631.103	3.057.451	3.018.972
Loans to non-banking sector	601.136	649.294	701.410	682.212	738.831	810.720
Impairments of financial assets measured at amortised cost and provisions for off-balance-sheet liabilities	237.134	194.944	120.165	261.486	212.008	136.917
Off-balance-sheet items	815.022	1.185.531	1.134.900	815.474	1.186.046	1.136.856
Income statement						
Net interest income	52.544	63.142	54.372	56.321	67.074	60.235
Net non-interest income	24.067	30.358	3.851	32.641	37.986	12.471
Labour costs, general and administrative expenses	(8.781)	(7.585)	(7.017)	(15.562)	(14.116)	(13.258)
Amortisation and depreciation	(589)	(575)	(588)	(1.023)	(1.009)	(930)
Impairments and provisioning	(61.541)	(79.478)	(43.131)	(58.851)	(80.877)	(44.347)
Pre-tax profit	5.700	5.862	7.488	13.526	9.058	14.171
Corporate income tax	(834)	(821)	(1.034)	(3.530)	(2.235)	(3.108)
Net profit for the financial year	4.866	5.041	6.454	9.996	6.823	11.063
Statement of comprehensive income						
Other comprehensive income before tax	703	3.176	(2.264)	793	3.915	(3.482)
Income tax on other comprehensive income	(174)	(719)	566	(180)	(763)	674
Number of employees as at 31 December	139	124	112	369	351	331
Shares						
Number of shareholders	1	1	1			
Number of shares	3.121.741	3.121.741	3.121.741			
Nominal value of share (in EUR)	96,10	96,10	96,10			
Book value of share (in EUR)	111,43	109,63	106,99			
International credit rating (Moody's) as at 31 December	Ba1	Baa2	A1			

Selected indicators[1]

In %	SID Bank 2013	SID Bank 2012	SID Bank 2011	SID Bank Group 2013	SID Bank Group 2012	SID Bank Group 2011
Capital						
Capital adequacy[2]	16.49	14.23	14.35	16.12	13.83	13.78
Quality of assets in the statement of financial position and assumed commitments						
Impairments of financial assets measured at amortised cost and provisions for assumed commitments/rated on-balance-sheet and off-balance-sheet items	6.45	4.91	3.11	6.92	5.23	3.20
Profitability						
Interest margin	1.31	1.53	1.36	1.36	1.55	1.43
Financial intermediation margin[3]	1.90	2.27	1.46	2.14	2.43	1.73
Return on assets before tax	0.14	0.14	0.19	0.33	0.21	0.34
Return on equity before tax	1.66	1.72	2.23	3.69	2.51	4.02
Return on equity after tax	1.41	1.48	1.93	2.73	1.89	3.14
Operating costs						
Operating costs/average assets	0.23	0.20	0.19	0.40	0.35	0.34
Operating costs/net income	12.23	8.73	13.07	18.64	14.40	19.51

1 The indicators are calculated using Bank of Slovenia methodology.
2 The calculation of capital adequacy and the ratio of impairments to rated items for the SID Bank Group takes account of 50% of the assets of the Prvi faktor Group (the SID banking group) in addition to SID Bank itself.
3 The calculation of the financial intermediation margin for the SID Bank Group does not take account of PKZ's income from insurance operations.

2 About SID Bank and the SID Bank Group

2.1 About SID Bank

SID Bank is a specialist promotional export and development bank with the authority to carry out long-term financial services to complement the financial market in areas according to the Slovene Export and Development Bank Act (hereinafter referred to as: ZSIRB), which are relevant for the sustainable development of the Republic of Slovenia.

The operations of the SID Bank are founded on long-term development documents of the EU and the Republic of Slovenia. To perform business activities and all the activities of the SID Bank with the purpose to pursue long-term development guidelines of the Republic of Slovenia and EU, the Republic of Slovenia ensures long-term stable operation of SID Bank. The Republic of Slovenia as the single shareholder shall, irrevocably and without limitation, be responsible for the liabilities incurred by the SID Bank out of transactions entered into in performance of activities as of Articles 11 and 12 of ZSIRB. If the SID Bank fails to settle its due liability to a creditor at the latter's written request, the Republic of Slovenia shall be obliged to settle such liability promptly at the request of the creditor. This allows SID Bank to borrow on financial markets without the need to obtain a guarantee from the Republic of Slovenia for each transaction.

The Bank performs all services with the purpose to create direct or indirect added value for the users of the services according to the purpose and goals of individual transactions, projects, investments or other forms and first and foremost maintains or increases the value of the equity without the objective of maximising profit. In performing its business activities it does not compete with other financial institutions on the market. To achieve the goal of non-competition to financial institutions, the SID Bank also follows the principle of equal access or non-discrimination for all users of financial services of SID Bank and transparency for the services it offers, as well as for business operations and business results.

While performing business services the SID Bank may use all applicable and available financial instruments in the EU and Slovene legislation, such as loans and other forms of guarantees, factoring, financial leasing, concession credits and other instruments for international development cooperation, as well as other means of assuming risks and include them in the promotional-development financing programmes.

Development and status

1992 The Slovenian Export Company was established as a special private financial institution for insuring and financing Slovenian export. SID's business activities were regulated by the Slovenian Export Finance and Insurance Company Act.

2004 The Act Governing Insurance and Financing of International Commercial Transactions (hereinafter ZZFMGP)[4] entered into force, which required that SID coordinated its activities in terms of insurance operations it carried out on its own behalf and for its own account in line with regulations, which applied to the activities of insurance companies by no later than by the end

[4] ZZFMGP regulates the foundation of the insurance system and financing of international economic transactions, as instruments of trade policy of the Republic of Slovenia.

of 2004, as well as those business activities, not in relation with insurance operations and not under the ZZZFMGP, with regulations that applied to bank activities by the end of 2006. Based on this legal foundation, SID established an insurance corporation and transferred the portfolio of marketable insurance deals, which it carried out on its own behalf and for its own account before the end of 2004.

2005 Establishment of the insurance company SID – Prva kreditna zavarovalnica d.d., Ljubljana.

2006 At the end of the year by obtaining the license from the Bank of Slovenia to perform banking and other financial services SID – the Slovenian and Export Company transformed into a bank and changed its name to SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (abbreviated name SID banka, d.d., Ljubljana)[5].

2007 SID Bank began to operate as a specialist bank.

2008 When ZSIRB entered into force it granted the bank two powers:
- the SID Bank became Slovenia's specialist promotional, export and development bank in the pursuit of activities under ZSIRB and
- SID Bank was regarded as an authorised institution for all transactions under the ZZFMGP.

2010 The amendments of the Banking Act expressly determined that SID Bank was a specialist Slovene promotional export and development bank, which could not accept public deposits.

With the adoption of the Commission Directive 2010/16/EU amending the Directive 2006/48/EC of the European Parliament and of the Council also the European Commission in line with the opinion of the European Banking Board confirmed that the SID Bank was an institution involved in specific activities in the public interest and was therefore eligible for inclusion on the list of institutions excluded from the scope of application of Directive 2006/48/EC pursuant to Article 2 of the directive.

2011 Based on the decision of the Bank of Slovenia in October, SID Bank was recognized as a bank significant for the banking system of the Republic of Slovenia.

Banking Services

In accordance with its role, purpose and tasks, SID Bank primarily provides financial services in the framework of authorisations issued by the Bank of Slovenia.

The main service is the provision of loans, largely indirectly via commercial banks, in certain instances in cooperation with other banks in bank syndicates. To a lesser extent, the Bank also lends directly to final beneficiaries.

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

SID Bank's financial services are determined in accordance with four main purposes:

- the development of society of knowledge and innovative entrepreneurship;
- the development of environment-friendly society and production;
- the development of 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 of a financial nature and meeting the objectives of long-term development policy in the following areas (according to the ZSIRB):

- the development of small and medium-size enterprises (SMEs) and entrepreneurship;
- research, development and innovation (RDI);
- environmental protection, energy efficiency and climate change;
- international business transactions and international economic cooperation;
- regional development;
- economic and public infrastructure.

As at 31 December 2013, SID Bank held a Bank of Slovenia authorisation to provide the following mutually recognised financial services under Article 10 of the Banking Act (ZBan-1):

- acceptance of deposits from informed persons;
- provision of loans, including:
    - mortgage loans,
    - purchase of receivables with or without recourse (factoring),
    - financing of commercial transactions, including export financing based on the purchase at a discount without recourse of non-current non-past-due receivables collateralised with a financial instrument (forfaiting);
- issue of guarantees and other sureties;
- trading on own account or for the account of clients:
    - in foreign legal tender, including currency-exchange transactions,
    - in futures and options,
    - in currency and interest rate financial instruments;
- trading on own account:
    - in money-market instruments;
- credit rating services: collection, analysis and dissemination of information about creditworthiness.

SID Bank's Activities under the Republic of Slovenia's Authorisation

SID Bank provides **insurance** for international business transactions against non-marketable risks, and carries out an **interest equalisation programme** on behalf of and for the account of the Republic of Slovenia, as an agent of the state. The requisite funding for the effective provision of insurance operations under the ZZFMGP is provided to SID Bank by the Republic of Slovenia in the form of contingency reserves, which are used to settle liabilities to the insured (claims payouts) and to cover losses on these operations. Contingency reserves are created primarily from premium, 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 payouts is provided by the Republic of Slovenia.

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

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

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

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

SID Bank's activities for the account of the state are described in detail in Section 7.2.3.

Organisational structure of SID Bank as at 31 December 2013

Share Capital

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

There were no changes to the share capital in 2013, which stood at EUR 300 million as at 31 December 2013.

On 28 August 2013, the SID Bank's General Meeting passed a resolution allocating the 2012 distributable profit of EUR 2,394,656.35 to other profit reserves.

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

Shareholders as at 31 December 2013	Number of shares	Holding of share capital (%)
Republic of Slovenia	3,103,296	99.4
SID Bank (own shares)	18,445	0.6
Total	3,121,741	100.0

Total equity amounted to EUR 345.8 million as at 31 December 2013. As at 31 December 2013, the audited book value of one share stood at EUR 111.43, compared with EUR 109.63 as at 31 December 2012.

Company Information

Business name	SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana
Registered office	Ulica Josipine Turnograjske 6, 1000 Ljubljana
Registration number	5665493
Tax number	82155135
VAT identification number	SI82155135
Transaction account	0100 0000 3800 058
SWIFT	SIDRSI22
LEI code	549300BZ3GKOJ13V6F87
Website	http://www.sid.si
E-mail	info@sid.si
Telephone	+386 (0)1 200 75 00
Telefax	+386 (0)1 200 75 75

2.2 About the SID Bank Group

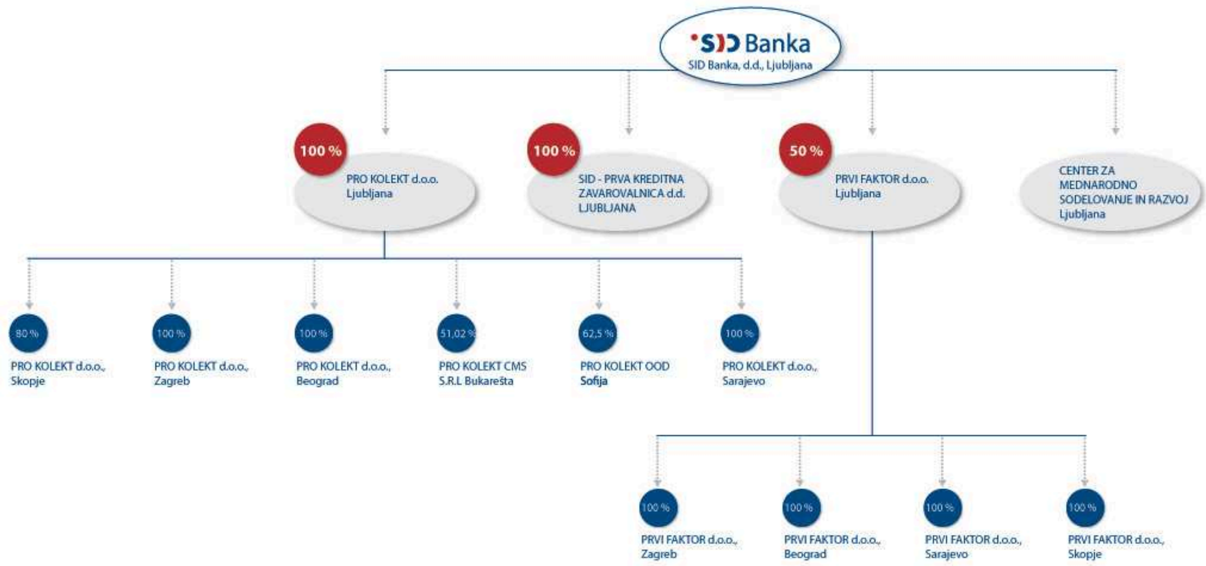
SID Bank Group

As at 31 December 2013, the SID Bank Group comprised:

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

The SID Bank Group's consolidated financial statements include SID – Prva kreditna zavarovalnica d.d., Ljubljana under the full consolidation method, and the Prvi faktor Group under the proportionate consolidation method. Given its insignificant impact on the financial position and profit or loss of the SID Bank Group, the Pro Kolekt Group is not included in consolidation. Pro Kolekt and the CMSR are presented in Section 7.3.

Organisational Structure of the SID Bank Group as at 31 December 2013



About the Companies Included in Consolidation

SID – Prva kreditna zavarovalnica d.d., Ljubljana

The harmonisation with the EU regulation and subsequently adopted laws, particularly the ZZFMGP, resulted in the organisational restructuring of SID and expansion of the SID Group. SID established SID – Prva kreditna zavarovalnica d.d., Ljubljana (hereinafter: PKZ) as the sole owner in 2004.

PKZ was entered in the companies register on 31 December 2004, and commenced its insurance operations on 1 January 2005. On this date short-term insurance contracts that had been concluded by SID for its own account by the end of 2004 were transferred to PKZ.

PKZ provides insurance for current operating receivables, usually with a maturity of up to 180 days, or exceptionally, i.e. when required by the nature of transaction or a type of goods, also up to 1 year. The company provides insurance against commercial and, optionally, also non-commercial (political) risks. Insurance contracts are generally concluded for annual periods, and cover the policyholder's whole turnover, on open account. In addition to the insurance of the full sales, individual parts of sales can also be insured (e.g. only exports, only domestic sales or only the claims financed by the banks), provided that PKZ assesses that the criteria used to decide whether a certain offered segment will be insured or not are objective and that there is no evidence of this being, for example, an attempt of negative selection. Under specific conditions PKZ also insures transactions of factoring companies. In the framework of insurance contracts, pre-supply risks (production risks) can be insured separately. Furthermore, PKZ insures individual projects and engineering deals, provided that payment deadlines do not exceed 2 years. PKZ also provides indirect insurance operations: it uses facultative quota reinsurance to cover credit insurance operations insured with export credit agencies. Such insurance operations are identical to above-mentioned direct insurance operations, and were negligible in 2013 compared to the volume of direct insurance.

In 2013 the company was headed by a two-person Management Board whose second successive term of office ended on 31 December 2013. The President of the Management Board was Mr Ladislav Artnik, and Dr Rasto Hartman was the Member of the Management Board. Ms Barbara Kunc was the Procurator. The newly appointed Management Board's 4-year term of office started on 1 January 2014. The composition is as follows: Mr Ladislav Artnik is the President, and Ms Barbara Kunc and Mr Igor Pirnat (MSc) are the two Members of the Management Board. The Supervisory Board is comprised of three members. In 2013, Mr Jožef Bradeško was the

President of the Supervisory Board; until 21 March 2013 Mr Leon Lebar was the Deputy-President; from 22 March 2013, Mr Bojan Pecher was Deputy-President (all representatives of SID Bank); Mr Ivan Štraus was a Member until 24 February 2013 and Mr Andraž Tinta from 25 February 2013 (workers' representatives). The Supervisory Board appointed a three-member Audit Committee, which comprises two members of the Supervisory Board and an independent expert, Ms Blanka Vezjak (MSc).

The nominal value of SID Bank's interest in PKZ stood at EUR 8.4 million as at 31 December 2013.

Prvi faktor, faktoring družba, d. o. o.

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

The company's principal line of business is factoring and it primarily provides the following services:

- the purchase, or takeover in return for consideration, of receivables from the sale of goods and services with or without payment risk;
- financing of assumed receivables;
- administrative management of assumed receivables;
- realisation and recovery of assumed receivables;
- trading in assumed receivables;
- intermediation and brokerage of factoring transactions in Slovenia and abroad.

SID acquired a 50% interest in the nominal capital and half of the voting rights of Prvi faktor, Ljubljana in 2002. The other partner is Nova Ljubljanska banka d.d., Ljubljana. The nominal value of SID Bank's interest in the company stood at EUR 1.6 million as at 31 December 2013.

The company's governance bodies are the General Meeting and the Director. In 2013 SID Bank was represented at the General Meeting by Ms Barbara Bračko and Mr Leon Lebar. The company Directors are Mr Ernest Ribič and Mr Matej Špragar.

Družba Prvi faktor, Ljubljana is the founder and 100% owner of four companies.

Prvi faktor, faktoring društvo, d. o. o., **Zagreb**, Croatia, was established on 17 December 2013. Its principal line of business is factoring. The nominal capital of the company is EUR 2.6 million. The company Director is Mr Tomaž Kačar. The General Meeting of the company is comprised of representatives of Prvi faktor, Ljubljana: Mr Ernest Ribič, Mr Matej Špragar, Mr Aleš Sever and Mr Uroš Vidovič.

Prvi faktor, faktoring d. o. o., **Belgrade**, Serbia, was established on 24 February 2005. Its core activity is factoring. The nominal capital of the company is EUR 2.8 million. The company Director is Ms Jelena Tanasković. The General Meeting of the company is comprised of representatives of Prvi faktor, Ljubljana, Mr Ernest Ribič, Mr Matej Špragar, Mr Aleš Sever and Mr Uroš Vidovič.

Družba **Prvi faktor** d. o. o., financijski inženiring, **Sarajevo**, Bosnia and Herzegovina, is engaged in other financial intermediation, and was established on 27 February 2006. The share capital of the company is EUR 1.5 million. The Director of the company is Mr Đenan Bogdanić. The General Meeting is made up of representatives of Prvi faktor, Ljubljana: Mr Ernest Ribič, Mr Matej Špragar, Mr Aleš Sever and Mr Uroš Vidovič.

On 22 September 2006 **Prvi faktor** d. o. o., **Skopje**, was entered in the court register. The company's nominal capital is EUR 5 thousand. The company is not operating.

As at 31 December 2013 the nominal value of participating interests of Prvi faktor, Ljubljana in the companies Prvi faktor, faktoring društvo, d. o. o., Zagreb and Prvi faktor d. o. o., Skopje was equal to the nominal capital of the individual companies on that date. The investment in Prvi faktor d. o. o., Sarajevo was partly impaired. Its carrying amount as at 31 December 2013 was EUR 1 million, whereas the investment in Prvi faktor, faktoring d.o.o, Belgrade, was entirely impaired as at 31 December 2013.

3 Corporate Governance Statement

3.1 Corporate Governance Code

As a public company, in the 2013 financial year SID Bank applied the Management code for publicly traded companies (hereinafter: the Code), which was drafted and adopted in its updated form by the Ljubljana Stock Exchange, the Slovenian Directors' Association and the Managers' Association of Slovenia on 8 December 2009. The Code is available at http://www.ljse.si/. SID Bank also applies the Corporate Governance Code for Capital Assets of the Republic of Slovenia, which was adopted by the Slovenska odškodninska družba in May 2013 and prior to this by the Capital Assets Management Agency.

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

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

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

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

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

3.2 Governing Bodies

Functioning and Key Powers of the General Meeting

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

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

The powers of the General Meeting were exercised in 2013 by Slovenska odškodninska družba, d.d (Slovenian Compensation Company) or its representative with the relevant written authorisation, in accordance with the Slovenian Sovereign Holding Act.

Composition and Functioning of Management and Supervisory Bodies and Their Committees

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

SID Bank's Supervisory Board

In accordance with the ZSIRB, the Supervisory Board has seven members, who are appointed by the Slovenian government. Members of the Supervisory Board are appointed for a term of five years. As at 31 December 2013, the Supervisory Board consisted of Ms Monika Pintar Mesarič (President), Mr Janez Tomšič (Deputy-President), and Mr Marjan Divjak (MSc), Mr Štefan Grosar, Mr Martin Jakše, Mr Leo Knez (MSc), and Mr Anton Rop (MSc), as Members.

The Supervisory Board monitors and oversees 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 Companies Act, the Banking Act and the ZSIRB.

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

The Supervisory Board has established an Audit Committee, and a Remuneration and HR Committee as consultative bodies. Each Committee's duties and responsibilities are set out by its own rules of procedure.

The Audit Committee of the Supervisory Board

The Audit Committee is appointed by the Supervisory Board. As at 31 December 2013, the Audit Committee consisted of Mr Martin Jakše (Chairman), Mr Marjan Divjak (MSc) (Deputy-Chairman), Ms Blanka Vezjak (MSc) and Mr Leo Knez (MSc) Members. In connection with its powers of monitoring and supervision, the Committee primarily discusses material relating to the Bank's interim and annual 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 procedures of supervision. The Committee also participates in procedures to select an external auditor, and reviews and monitors the auditor's work and impartiality.

Remuneration and HR Committee

The Remuneration and HR Committee is a standing working body and consultative body of the Supervisory Board. The Supervisory Board appoints the Chairman and Deputy-Chairman of the Committee. As at 31 December 2013, the Committee consisted of Ms Monika Pintar Mesarič (Chairman), Mr Janez Tomšič (Deputy-Chairman), and Dr Alenka Stanič (Member). The Committee's duties and responsibilities related to employee remuneration and the discussion of issues concerning the Management Board. Its main tasks are assessing whether the methodologies put in place are the basis for a remuneration system that encourages proper management of risks, capital and liquidity, reviewing the relevance of the general principles of remuneration policy and the level to which remuneration policy complies with the Bank's business policy over the long term, assessing and evaluating the work of the Management Board, and drawing up recommendations for the Supervisory Board in respect of the implementation of remuneration policy.

Committee for the Assessment of Suitability of Members of the Management and Supervisory Boards

In accordance with the Bank of Slovenia's decision, the policy for the assessment of the suitability of the Members of the Management and Supervisory Boards as well as key function holders was adopted in 2013. Accordingly, the Committee for the Assessment of Suitability of Members of the Management and Supervisory Boards was established. The Committee's task is to assess the suitability of members of the Management and Supervisory Boards in the event of appointments of new members or the occurrence of new facts or circumstances. In addition to the member employed at SID Bank, the other two members of the Committee are external members to ensure better independence of the Committee.

Management Board

The Bank's operations are directed by the Management Board, which represents it in public and legal matters. The Management Board is appointed for a term of five years, and may be reappointed. The Management Board is to have no more than three members. The number of members is determined by the Supervisory Board. The Management Board of SID Bank consists of the President, Mr Sibil Svilan (MSc), and Mr Jožef Bradeško as Member.

The Management Board directs the Bank's operations independently and at its own liability. The actions of the Management Board are regulated by its rules of procedure. The Management Board generally sits in session on a weekly basis, where issues concerning the Bank's operations is discussed. The Management Board regularly briefs the Supervisory Board of the most important issues in the Bank's operations, in its business policy, its financial position and other significant issues relating to its performance and activity.

The Management Board may transfer certain decision-making rights to collective decision-making bodies such as the Credit Committee, the Liquidity Committee, the Asset/Liability Committee, and the Committee for Operations on Behalf of the State.

Credit Committee

The Credit Committee's principal powers and responsibilities and its methods of work are set out in its rules of procedure. At its sessions, the Credit Committee decides on approvals of investments in line with SID Bank's business policy, on the classification of individual investments, on the raising of funding with a maturity of more than 1 year, on the treasury investment policy and on exposure limits for individual clients. For transactions that SID Bank is concluding for the account of the Republic of Slovenia under the ZZFMGP, the Committee makes decisions on matters including financing for international business transactions from the contingency reserves, and approves the policy for contingency reserve investments and the exposure limits for individual clients. At its sessions, the Committee also discusses reports relating to credit risk drawn up by the backoffice and payments department, the risk management department and the distressed investment management department. As at the end of 2013, the Credit Committee had six members.

Liquidity Committee

The work of the Liquidity Committee is regulated by its rules of procedure, which sets out its powers and methods of work. The Committee generally sits in weekly sessions to monitor the Bank's liquidity position, to monitor the fulfilment of Bank of Slovenia liquidity-related regulations, and to put forward principles and guidelines in relation to the raising of funding and placement of assets on the money and capital markets, the utilisation of the money policy, the fulfilment of Bank of Slovenia regulations and guidelines, the management of exchange rate, interest rate policies and the management of the portfolio of securities and other financial instruments. The Liquidity Committee had seven members at the end of 2013.

Asset/Liability Committee

The Asset/Liability Committee analyses changes and trends in the Bank's on-balance-sheet items, and takes decisions to achieve a balance sheet structure that is in keeping with the Bank's business policy and that facilitates normal operations and the implementation of the Bank's plans. The Committee's powers and responsibilities include discussing the Bank's performance from the point of view of its commercial objectives, discussing the Bank's balance sheet structure with a view to credit risk and market risks, defining the content of the indicators used to monitor balance sheet structure, discussing reports on capital adequacy and the Bank's exposure to risks, discussing the Bank's draft business plan and proposing changes to the plan in the event of a significant change of business indicators. The Committee's work is regulated by its rules of procedure, which set out its powers and responsibilities. The Committee meets in monthly sessions, and had 11 members at the end of 2013.

Committee for Operations on Behalf of the State

With the aim to discuss and decide about operations performed on behalf of the state to an even broader extent than in the past, and to ensure an even more consistent separation of operations of SID Bank from operations on behalf of the Republic of Slovenia, the Bank established a new body in 2013 and transferred certain powers of the Management Board to it. The main powers and method of the Committee's operation are determined in the rules about the work of the Committee for Operations on Behalf of the State. At its sessions, the Committee decides about (re)insurance operations on behalf of the state, limits of exposure to an individual client, policy of contingency reserve investments, transactions and other issues concerning guarantee schemes provided these are not discussed by the Credit Committee, and other issues related with operations on behalf of the state. The Committee had four members at the end of 2013.

International Trade Promotion Commission

The government of the Republic of Slovenia has appointed an International Trade Promotion Commission to coordinate the actions of the relevant government bodies and other bodies and institutions in the implementation of the ZZFMGP, and to ensure the effective implementation of the insurance and financing of international trade and investment.

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

– policies 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 the volume of potential claims;

- the formulation and conclusion of special insurance terms for individual insurance policies and other transactions;
- the management of the contingency reserves and the risks taken up in insurance operations;
- agreements and relations with financial institutions and other institutions;
- the reprogramming, recovery and liquidation of claims, and other transactions under government authorisation including an opinion thereon.

The International Trade Promotion Commission regularly monitors the Bank's operations in areas regulated by the ZZFMGP, discussing performance reports and providing an opinion of the Bank's exercise of authorisations under the ZZFMGP for the Ministry of Finance.

As at 31 December 2013, the Commission consisted of Mr Marjan Hribar (MSc) as Chairman, Ms Sabina Koleša (MSc) as Deputy-Chairman, and Mr Matej Čepeljnik, Mr Janez Krevs, Dr Stanislav Raščan and Mr Jože Renar (MSc), as Members.

3.3 Main Features of Internal Control Systems and Risk Management in Relation to the Financial Reporting Procedure

Via bylaws the Bank has put in place various internal controls in relation to the financial reporting, which are primarily implemented at the organisational units responsible for risk management, accounting, and controlling and reporting. The functioning of internal controls and risk management at the Bank is subject to internal auditing, which is carried out by a dedicated organisational unit.

In addition, in order to more effectively exercise its functions, the Supervisory Board has established an Audit Committee, whose work focuses on financial reporting and risk management. Part of the system of internal controls at the Bank consists of legal compliance management, which is the responsibility of a dedicated organisational unit.

Compliance Management

In 2013 the Compliance Management Department (called the Compliance Department after the reorganisation process) remained fully responsible for the implementation of the independent compliance function. The purpose of the compliance function is to identify and assess the compliance risks to which the Bank is or could be exposed, i.e. the risk of legal or regulatory sanctions, significant financial losses or a loss of reputation as a result of the Bank's operations failing to comply with the relevant regulations and standards of good practice.

The Compliance Department exercises its supervisory role by means of regular and extraordinary audits of operations from the point of view of compliance, focusing on those areas where analysis of the risk profile[6] suggests that the risk of non-compliance is highest. In conducting its audits, the Compliance Department works with the Internal Audit Department to exchange information and findings to ensure that the two departments complement each other's activities instead of duplicating them.

The compliance function includes monitoring and reporting on compliance risk, and providing advice and training on the management of compliance risk. It also encompasses a supervisory role, particularly in the sense of regular reviews of the implementation of the internal control mechanisms introduced by the Bank to ensure compliance. As part of the Bank's system of internal controls, the compliance function is one of the interconnected elements of a comprehensive, robust and reliable risk management system at the Bank.

Irrespective of the establishment and implementation of the compliance function, the Bank's Management Board

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

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

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

Internal Audit

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

The Internal Audit Department plans its activities in a strategic plan defining the content and focus of internal auditing work for a period of two years, and in an annual plan of work. The annual and strategic plans are drawn up on the basis of the Bank's risk profile, and include audits based on the regulator's requirements from mandatory auditing of individual areas of the Bank's operations. Both adopts the Management Board with approval given by Supervisory Board. In addition to internal auditing, the Internal Audit Department provides consulting services and coordinates reporting to external supervisory institutions.

The Internal Audit department reports to the Management Board, the Supervisory Board and the Audit Committee, which monitor the department's activities on the basis of the quarterly reports and annual report on the department's activities, and the quarterly reports on the implementation of recommendations. The Management Board also monitors the work of the Internal Audit Department when discussing individual reports of internal audits.

In 2013 the Internal Audit Department was staffed by three internal auditors with current licensing from the Slovenian Institute of Auditors as a certified internal auditor and a certified auditor. Because of lengthy absence, a majority part of 2013 the internal audit work was conducted by two staff members, and a small part of the year by one staff member. The audits of information technology and systems in 2013 was performed by outsorced certified IT auditors.

In 2013 the Internal Audit Department completed two audits planned for 2012, and conducted seven planned and four unscheduled audits. Additionally, one formal consulting engagement was performed, as well four audits of the realisation of the recommendations of the Internal Audit Department and other assurance providers.

4 Risk Management

The main risks faced by SID Bank are credit risk, interest rate risk, liquidity risk, currency risk and operational risk. SID Bank's attitude to taking up risks is defined such that the Bank focuses on credit risk and operational risk, while minimising other risks (interest rate risk, currency risk, liquidity risk). Risk management at SID Bank additionally needs to take account of the specific attributes of the implementation of promotional and development tasks and services of importance to Slovenia's development, and segmentation of operations into those involving the Bank's own resources and those on behalf of and for the account of the Republic of Slovenia, including the management of the contingency reserves and the reserves in the IREP[7].

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

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

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

The following bodies and organisational units are responsible for the direct implementation of risk management:

- Credit Committee: management and monitoring of credit risk and large exposures;
- Liquidity Committee: liquidity risk and currency risk;
- Asset/Liability Committee: balance sheet structure, capital adequacy, aggregate risks;
- Risk Management Department: preparation of risk management strategy and policy, monitoring of risks;
- Credit Analyses Department: assessment of clients' financial position and projections of their performance, assessment of soft factors, selection of appropriate indicators for determining financial commitments;
- Backoffice and Payments Department: daily monitoring of currency risk and liquidity risk in accordance with internal limits.

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

In accordance with the risk management strategy and the capital risk and capital management policy, SID Bank has put in place an internal capital adequacy assessment process, which:

- is based on the identification, measurement or assessment of risks, the formulation of an aggregate assessment of risks and the monitoring of significant risks that the Bank takes up in its operations;
- ensures adequate internal capital in relation to the Bank's risk profile;
- is properly incorporated into the governance system.

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

7 IREP – Interest Rate Equalisation Programme

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

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

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

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

5 Strategy of SID Bank

In accordance with the established strategic planning process, which envisages a "sliding" strategy (strategic period (start and end) is each year prolonged for another year), SID Bank's strategic plans were reviewed at the end of 2013 and SID Bank's action strategy for 2014-2016 was adopted on this basis.

The key external circumstances taken into account by SID Bank when revising its strategy were primarily the malfunctioning of the financial markets on one side, and the mounting problems in the real sector and banking system on the other side, which additionally lowered the absorption capacities of the Slovenian economy. The key internal factors encouraging a revision of the action strategy were the adaptations of the business model to the "new reality" and consequently an overhaul of the lending process. Another integral part of the action strategy is the risk profile, via which SID Bank also manages risks at the strategic level.

Mission, Vision and Values

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

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

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

Key Strategic Policies

Market Aspect

From the market point of view it is important that SID Bank continuously adapts its business model to the economic situation. The Bank is developing a new generation of financial services, which are adapted to the environment and current challenges, to increase the financial value for final beneficiaries.

In this context the Bank will continue focusing on the active development of new products over the entire enterprise lifecycle, particularly on the development of instruments in its early phases (mezzanine financing, capital). Moreover, the Bank will endeavour to expand its product-based cooperation with other public promotional institutions in Slovenia, and in general improve the effectiveness of diminished budget funds allocation.

SID Bank will in particular increase its turnover and share of its business where market gaps are significant, and support from commercial banks has withered. The evolving business model in all four basic areas of its business activities will allow SID Bank to focus especially on promoting enterprise, research, development, innovation and linking the academic sphere (research) with the economy (production and marketing) in specific projects. The Bank will focus as well on SMEs with high potential for development or growth potential that will result in job creation.

In light of the lower competitiveness of the Slovenian financial market, SID Bank's new strategic perspective will particularly develop programmes with elements of state aids on account of the decline in financing at market conditions. By applying the concept of financial engineering instruments SID Bank will use its own funds in combination with fiscal and private funds to create favourable conditions for final beneficiaries, which will ensure a suitable financial value of its services. One of the important objectives is also the inclusion in the implementation of the European cohesion policy 2014-2020.

SID Bank will continue to act primarily in the segment of indirect financing via commercial banks on the basis of specially designed promotional development programmes and, in market gaps where banks are particularly not active, it will increase its share of direct financing. SID Bank will also develop products with commercial banks based on the sharing of final risk.

Accordingly, the Bank will continue its process of transferring to the basic development segment of operations, while at the same time implementing its intervention/system role; it will develop towards becoming the key financial pillar of the new Slovenian development model.

Financial Aspect

If the negative growth in the Slovenian economy continues, SID Bank will endeavour to minimise, as much as possible, the decline in the total assets, and in the case of economic turn, the Bank will decrease the current relatively high share in the banking system. To ensure its sustainability, the Bank's objective is to keep a positive result and organic growth of capital.

The Bank will continue endeavouring to diversify and use its new favourable instruments to provide long-term funding. Where funding is also provided from the state budget, the Bank could combine it with non-refundable funds to offer final beneficiaries more favourable financing terms.

SID Bank will implement the risk policy in the classical meaning of the operation of development banks (higher risk, longer maturity, lower return), and at the same time it will ensure a sustainable business model. SID Bank will ensure that all risks are managed to a degree that ensures the required level of security while achieving adequate performance.

SID Bank will remain committed to increasing the value of its capital and maintaining capital adequacy, including from the point of view of the anticipated regulatory changes in this area and its role as a systematically important bank. Cost-effectiveness is also vital in the sense of increasing capital, and the Bank will also try to maintain it in the next strategic perspective.

Internal Aspect

The strategic priorities from the internal point of view are to adapt to the new business model, to speed up the development of products, to put in place a quality system enabling the efficient management of internal growth, and to mitigate operational risks.

The organisational culture at the Bank will be developed in line with the established ethical values and high professional standards, while the optimisation of the lending process will be completed as the appropriate changes are made to the organisational structure.

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

Another of the Bank's strategic guidelines is the effective governance of the SID Bank Group and the exploitation of process synergies in the Group at the right organisational structure.

Learning and Development Aspect

The key strategic guideline from the point of view of learning and development is the maintenance of the network of expertise that SID Bank has built in the past in financial, technical, technological and institutional areas, primarily as a goal to transfer good practice. SID Bank will endeavour to obtain competences in the area of drawing cohesion funds and implementing project financing.

Of particular importance to the further development of the business model are relations with the government, in which the Bank will aim to contribute to the co-development of a new, advanced Slovenian model of development financing, primarily via the advantages of its established instruments and concepts.

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

Financial Plan for 2014

The adopted strategic guidelines and objectives form the basis for drawing up the Bank's annual operational and financial plans, which provide support for the pursuit of the strategic objectives at an operational level. The financial plan observes the assumptions of SID Bank's Strategy for 2014-2016, prepared on the basis of a selected scenario.

In accordance with the Bank's adopted strategy, the activities of the Bank in 2014 will be focused on ensuring capital stability, the cost effectiveness, maintaining proper liquidity, effective management of distressed investments and proactive risk management.

According to the plan for 2014 the total assets as at 31 December 2014 will stand at EUR 3,915 million. In 2014 the Bank plans to increase loans to non-banking clients and to decrease the loan portfolio of banks. The reason for the latter is in the recent capital increase in commercial banks, which has provided them with more favourable funding; accordingly it is expected that this will reflect in lower demand for loans from SID Bank. Loans to non-banking clients will focus on loans within financial engineering measures, which will ensure clients with favourable funding for operation and development. Due to the economic stagnation, impairments are expected to increase because of increased credit risk, both nominally as well as considering the gross loans. For the same reasons, the pressure on reprogramming of the existing loans has been increasing; therefore the role of distressed investments management will increase.

The Bank plans to generate a positive result in 2014 despite the expected lower interest income, increased impairments and provisioning, and slightly higher operating costs due to planned new recruitments.

6 Corporate Social Responsibility

SID Bank's Mission

Corporate responsibility is an organisation's responsibility for the impacts its decisions and activities have on the social community and environment. Through transparent and ethical activities, corporate responsibility contributes to sustainable development, including the health and welfare of the social community, meets the expectations of stakeholders, is in accordance with the applicable legislation and international norms of operation, and is integrated in the entire organisation and implemented in all its relationships.

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

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

SID Bank's role is intermediation in financing and insurance in areas where there are market gaps, and the resulting creation of wider social benefits in terms of:

- sustainable and balanced economic development in Slovenia;
- research and innovation, and other forms of economic development activity;
- close-to-nature environmental development with a high degree of protection for the environment and habitat, public infrastructure and utilities, and energy efficiency in particular;
- social progress, education and employment;
- other activities contributing to economic growth, development and prosperity.

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

The end objective of the Bank's work is to ensure equal opportunities for future generations. The Bank will also gradually commit its subsidiaries to this objective by passing on its social responsibility policy.

Outward Effects of Socially Responsible Activities

Effects of the Bank's Activities

The expansion of operations to all four major areas of activities, the active implementation of assigned tasks and the resulting rapid growth of the Bank were also reflected in the socio-economic effects of SID Bank's activities. Using the same methodology to that from an independent evaluation of SID Bank's activities in the 2007–2010[8] period and specific assumptions, the SID Bank Group's services, excluding the guarantee schemes, facilitated around EUR 7.7 billion in sales by Slovenian companies, EUR 3.1 billion in GDP, EUR 3.6 billion in exports and more than 18 thousand new jobs in 2013.

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

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

Responsible Lending

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

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

SID Bank's role is thus not to support all transactions, but only those that are economically and financially justifiable, and that include a component of sustainable development and bring users higher added value.

The concept of responsible lending is also seen in ensuring the added value of the Bank's services using the following levers:

- diversity of financial resources;
- longer maturities;
- lower prices of services and other more favourable terms and conditions;
- more efficient use and allocation of funds;
- promotion of the functioning of the private sector in the direction of sustainable development and an increase in its capacities;
- transfer of added value to final beneficiaries;
- positive external effects (social benefits);
- links with other public-promotional institutions and combination of refundable and non-refundable funds, and;
- development of new financial instruments tailored to the needs of the Slovenian economy, and advisory services.

Accessibility to Services

With the aim of facilitating access by final beneficiaries to financial services for sustainable development projects, SID Bank once again pursued the concept of covering the entire corporate lifecycle in the development of products and programmes in 2013 – throughout the entire production chain, from start-up capital all the way to sales on domestic and foreign markets, and even until the final repayment of claims that have arisen.

In 2013 the Bank thus established a development capital fund, also as a response to the currently most urgent need of the highly indebted corporate sector, and it also implemented the following new programmes and products:

- a programme to finance infrastructure and environment projects of municipalities;
- a programme to finance small businesses, taking account of the small business act and the national reform programme;
- a programme to finance renewable energy and energy efficiency, with an emphasis on SMEs;
- a pre-export loan insurance product for individual long-term export transactions;
- the introduction of the OECD's sustainable lending policy in practice in the area of export credit insurance.

Professional Commitments and Cooperation

Interbank agreements and recommendations that enhance the best practices, rules and principles of the banking profession contribute to healthy operations, responsible lending, and security and liquidity in the banking sector and beyond. The Bank therefore ascribes the appropriate relevance to such agreements with financial institutions at both the national and international levels, and actively participates in the exchange of information, best business practices and the establishment of professional values. Of particular importance for SID Bank are agreements with the Bank Association of Slovenia, and with other domestic and foreign associations of which it is a member. The Bank is also a member of several international associations of financial institutions, including the EAPB, the ISLTC Club, the NEFI[9] 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 association, and to perform its activities professionally and in a financially responsible manner, while respecting the environment. On the initiative of the Government office for Climate Change, the Bank participates in the LOCSEE (Low Carbon South East Europe) project as an observer.

Communication with External Audiences

As a promotional and development bank, SID Bank pays a great deal of attention to the transparency of its operations and accordingly open communications. Due to the expiration of the majority of crisis measures, SID Bank has again reinforced communications regarding its core activities of development and promotion.

The primary focus of external communications is on the business public, in particular business partners and the media. SID Bank provides comprehensive information about its programmes and opportunities to receive its funds. In addition to press conferences and press releases and notification via its website, SID Bank organised presentation of new and existing products for companies and local government in 2013, and provided regular information and enhanced business relationships with companies and banks that provide SID Bank's funds to companies.

Inward Effects of Socially Responsible Activities

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

This is also taken into account in SID Bank's policy of corporate responsibility, which was adopted in the broadest and most comprehensive sense.

The formally binding document emphasises the role of the entire collective in the implementation of the policy, while the bases for the systematic management of the policy's content have also been laid down. The Bank constantly updates measures in the area of social responsibility through the strategic-operational planning process (action strategy, annual operations plan).

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

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

Business Ethics

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

Special attention is given to preventing corruption in transactions with clients and to the environmental protection policy of the OECD.

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

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

Environment-Friendly Company

SID Bank also upholds internal social responsibility in terms of environmental protection and energy efficiency. In 2013 it continued its socially responsible practices by compiling its energy-environmental balance sheet, calculating its carbon footprint and managing the index of corporate responsibility. Using the aforementioned index, the Bank monitors the implementation of measures and the achievement of objectives in fulfilling corporate responsibility.

	Unit	2013	Plan 2013	2012
Energy consumption for heating	kWh	574.500		598.060
per employee	Kwh/emp.	4.517,1	5.356,2	5.410,3
Electricity consumption	kWh	517.732		532.527
per employee	Kwh/emp.	3.983,0	4.694,0	4.741,4
Water consumption	m^3	1.100		1.059
per employee	m3/emp.	8,5	9,3	9,4
Carbon footprint/CO2 emissions	t	612,0		880,5
per employee	t/emp.	4,8	8,1	8,2
Office paper consumption	t	3,1		5,0
per employee	kg/emp.	23,6	43,9	44,3
Expenses for other office supplies	€	16.916		17.953
per employee	€/emp.	130,1	157,3	158,9
Size of premises				
per employee	m2/emp.	16,9	16,4	19,4

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

SID Bank ceased the practice of giving business partners gifts, and redirects the funds saved to Umanotera, a Slovenian Foundation for Sustainable Development.

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

Internal Communications

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

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

At the end of 2013, the Bank carried out a corporate climate and employee satisfaction survey to measure the corporate climate and compare the results with the results from previous years and with those from other Slovenian companies. The survey was satisfactory, as the established strategic target of 60% was exceeded. The results represent a sound basis for improvement for all employees, in particular for management staff, and they also represent a major commitment for the future.

Concern for Employees

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

In the area of employee health and safety in 2013, SID Bank continued specialist and regular periodic medical and ophthalmologic examinations. It also conducted regular training in the area of occupational health and safety, which is obligatory for all employees.

The payment of salaries and other employee related expenses is subject to the applicable legislation and the Collective Agreement for Slovenia's banking sector, while remuneration for employees' job performance and promotions are governed by the Bank's collective agreement. In 2013 the Bank continued its practice of paying the complementary health insurance and supplementary pension insurance premium for its employees.

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

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

In terms of in-house social responsibility, the Bank uses annual interviews and meetings with employees to implement or integrate the Bank's values into the daily life and work of its employees. At the same time, employees also take part in various meetings and round tables where they promote their business values of sustainable development and ethical operations as the basis for socially responsible and sustainable banking.

The Bank has been creating new jobs for many years, and opening new employment opportunities through its growth and development. Employment was conducted in line with the annual employment plan again in 2013 and in line with guidelines from the action strategy, which is based primarily on the adjustment of employment to growth in the scope of operations and the development of new products, on the employment of experts with specific skills and experience and on maintaining competent and perspective employees at the Bank. SID Bank hired 19 new employees in 2013. The Bank had 139 employees at the end of the year, of which 91 were women and 48 were men. The average number of employees in 2013 was 128.

	SID Bank		SID Bank Group	
Qualification level	number	proportion, %	number	proportion, %
Level V or lower	14	10.1	61	16.5
Level VI	12	8.6	40	10.8
Level VII	101	72.7	244	66.1
Level VIII	10	7.2	21	5.7
Level IX	2	1.4	3	0.8
Total	139	100.0	369	100.0

Promoting continuous learning and developing and improving knowledge and skills and their utilization in practice represents one of the objectives of SID Bank's action strategy. In 2013 a total of 131 employees participated in various forms of training, representing 102.4% of the average number of employees during the year. The average number of training hours per employee was 33. A great deal of emphasis is also placed on the internal transfer of newly acquired knowledge and the evaluation of training programmes.

7 Performance in 2013

7.1 Macroeconomic Environment in 2013[10]

International Environment

The world economic growth was in 2013 somewhat lower than the previous year and reached close to 3%. The growth somewhat strengthened mostly in the USA and some developed countries and in the second quarter the GDP also began rising in the euro area. Mainly because of weak domestic demand, the growth lowered in most fast-growing countries, especially in Russia and Brazil and it was also significantly lower in India.

The economic activity in the majority of trade partners of Slovenia was weak, although it improved throughout the year. In Germany, the growth reached 0.4% last year and it was also positive in Austria and France. On the other hand, growth was negative in countries of South Europe, where economic activity was slowed down by weak domestic demand and problems in the financial system, as well as the necessary measures for the consolidation of public finances. Italy's GDP went down by almost 2% and around 1% in Croatia.

Regardless of signs of improvement of macroeconomic conditions, unemployment remained high, whereas inflation for the most part very low. The unemployment rate began to lower in the USA, but remained at the same level of around 12% in the euro area. This additionally hindered household spending and forced the lowering of inflation. Inflation was at 1.4% on average during the year and lowered at the end of the year under 1% in year-on-year terms, partly also because of the lowering of energy contribution prices.

The most important central banks maintained a very expansionary monetary policy stance. ECB lowered the key interest rate to 0.5% in May and again in November to 0.25%.

With the exception of the Cyprus economic crisis, the conditions on financial markets were for the most part more favourable than in previous years. Markups on expected government bond yields of most periphery euro area countries somewhat lowered, especially in the second half of the year. But the gap between the core and periphery euro area countries remained significant under the influence of negative economic growth, problems in the financial system and uncertainty about the sustainability of government debt.

Despite this, the public deficit of the euro area countries on average had been lowering and in 2013 achieved already 3% of GDP in line with the Stability and Growth Pact and the gross debt is believed to settle under 94% of GDP according to the ECB projections.

The contraction of loans to NFC's accelerated, passing 3% in year-on-year terms by the end of the year, while household loans barely showed any growth.

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[10] Unless stated otherwise, the presented figures are taken from the following sources:
- IMAD – Slovenian Economic Mirror (January 2014);
- Bank of Slovenia – Bulletin, January 2014; Macroeconomic Fluctuations and Projections, October 2013.
- ECB – Monthly Bulletin, December 2013 Eurosystem Macroeconomic Projections for the Euro Area
- Eurostat – database.

To stabilise conditions in the banking system in euro area key steps were made in 2013 in terms of setting up the European Banking Union. It consists of two pillars. The first is a Single Supervisory Mechanism, within which the ECB would directly and in cooperation with a local regulatory body supervise the systemically important banks of the euro area. SID Bank is also among the three Slovenian banks, which will be under ECB's supervision. The second pillar concerns a uniform framework for recovering banks in distress (Bank Recovery and Resolution Directive – BRRD). The directive of the European Commission (Single Resolution Mechanism – SRM) in addition to the unified resolution, plans to set up a fund to which banks would contribute and would be used for recovering banks in distress. This is a way to prevent major costs for public finances, which emerge when a bank system is in distress.

Slovenian economy in 2013

After GDP dropped by 2.5% in 2012, it went down by an additional 1.1% in 2013, while the economic activity in the second half of the year began to rise again. The GDP's drop reflected weak foreign demand, the short-term effect of the austerity measures for the consolidation of public finances, deteriorating conditions on the labour market and their influence on the household spending, deleveraging of the private sector and a continuation of problems in the access to financing. Under the influence of the aforementioned adverse factors, all components of domestic demand lowered with only the net trade contribution with foreign countries remaining highly positive. A decline in household final consumption dropped by almost 3% in accordance with the uncertainty regarding employment and a decline in purchasing capacity. The state again contributed significantly to the decline of domestic aggregate consumption by carrying out further austerity measures.

Exports showed almost 3% of growth, mostly because of accelerated growth in merchandise export alongside otherwise gradual recovery of the euro area. Import did not lower as much as in 2012, partly because of merchandise import prior to July's rise of VAT rates. Part of import contributed to stocks, which were the main factor of slowing down the downturn of aggregate domestic demand in the second half-year. The current account of the balance of payments went into a high surplus in the last year at 6.5% GDP. The growth of the surplus at the current account was heavily influenced by the transition to the exchange of goods. The surplus of the current account stands for the drop of the foreign net debt, which went down from the highest 43% of GDP to a mere 36% of GDP at EUR 12.5 billion.

A decline in economic activity led to conditions in the labour market remaining poor, although deseasonal data suggest a stabilisation in the number of employed and the number of unemployed after the second quarterly. The survey-based employment figures in 2013 were at 10%, whereas registered unemployment showed 13%, which is over a tenth more than the previous year. On the year's average the working active population lowered by almost 2%, which is what the economic activity drop amounted to.

Low cost pressures and a decline in aggregate demand caused a significant drop of inflation at the end of the year, despite a significant effect on prices because of increased tax rates. The growth of harmonised price index of consumer prices was at 1.9%, which is 0.5 percent of a point higher than that the average in euro area and 0.9 percent point less than in 2012. The core inflation went slightly up after very low levels in the first half of the year alongside the rise of VAT rates, then lowered again under 1% in year-on-year terms.

2013 was also demanding in terms of fiscal policy, because the recovery of the banking system greatly increased the public deficit and debt. Also, in 2013, the contraction of economic activity hindered the lowering of the state's deficit. Lower collected taxes were influenced by poor conditions on the labour market, weaker economic activity and also changes in tax policy in collecting revenue tax of corporates. By acknowledging the evaluation of necessary resources for the banks resolution published on December 12th, the state's deficit amounted close to 15% of the GDP, of which over 10.1% GDP belonged to measures for the capital increase of banks.

The gross debt rose to close to 72% of GDP by the end of the year including the BAMC debt, which according to the ESA95 methodology is part of the state's sector. The EU Council extended Slovenia's deadline to remedy the surplus deficit of the state by two years until 2015.

The banking environment in 2013

2013 was marked by the deepening of the economic and financial crisis, which was noticeable also in the further deterioration of the banking system and the strongest contraction of lending activity after the onset of crisis.

The tightened conditions of financing were additionally heavily impacted by the deterioration of the credit portfolio of banks resulting in high costs of impairments and provisions. This was reflected in the strongest contraction of lending activity after the beginning of crisis. The reduction of loans to NFC's reached 8% in 2013 by December, then the dynamic of contraction in December additionally greatly increased because of the transfer of a part of bad banking loans to the Bank Assets Management Company (BAMC), which was founded by the government of the Republic of Slovenia with the intention to stabilise conditions in the banking sector. Due to impairments and transfers to BAMC, the contraction of loans to companies achieved 21% in year-on-year terms. Because of the worse economic situation of households and less inclination to spend, we also witnessed a drop of consumer loans, while the amount of housing loans actually increased somewhat at the end of the year in year-on-year terms.

The accelerated contraction of loan activity was in 2013 also linked to the repayments of banks abroad and the contraction of the banking system's total assets was even greater than in 2012 and only went up by the end of the year, in year-on-year terms, to 11%. The total assets therefore went down by EUR 5.1 billion. Primarily, this was because of continued repayments at foreign banks, but also because of lowering deposits of the non-banking sector.

Provisions and impairments due to the growing poor quality of the portfolio and contraction of the scope of business led to an extremely poor business performance of the banking sector. The proportion of bad claims went up from less than 12% at the beginning of the year to over 18% and in companies over 20%. The amount of impairments in 2013 was EUR 3.6 billion, of which EUR 2.2 billion only in December. EUR 0.6 billion impairments emerged in September and October because of the controlled liquidation of two banks. The loss of the banking system before tax amounted to EUR 3.6 billion, which increased the cumulative loss from the onset of the crisis to EUR 4.6 billion. The net interest revenue was almost 20% lower and the gross income of banks nearly 30% lower than in 2012.

In autumn 2013, the Bank of Slovenia performed stress tests and asset quality review of banks in cooperation with foreign institutions. In this way it determined the amount of extra capital needed to ensure capital adequacy of individual banks. The capital increase of banks in the amount of EUR 3.5 billion and transfer of bad claims to BAMC lowered the proportion of bad claims to somewhat above 13% at the beginning of 2014 and increased capital adequacy over 15%. In this way, the Slovenia's banking system is among the average capitalised banking systems in the EU.

To improve the functioning of the financial system and to achieve financial restructuring of companies facing problems, the banking legislation was adapted in 2013. The Banking Act was amended with the purpose to strengthen financial stability, insure depositors and relieve financial reorganization of banks, as well as to adapt business models to achieve long-term successful operation. With this, the Bank of Slovenia's jurisdictions were increased to take measures if adequate private solutions regarding banks' situation could not be achieved.

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

The already described poor position of Slovenian economy and uncertain conditions in European area also influenced the performance of the SID Bank and the SID Bank Group in 2013. The increasing uncertainty lowered the demand for investment loans and increased the need for current assets loans.

SID Bank reacted to these newly emerged conditions by changing its products, both in the segment of indirect financing through commercial banks in the sense of speeding-up disposable funds for financing final beneficiaries, adjustments of pricing conditions and certain conceptual-technical adjustments, as well as in the segment of direct financing, mostly through introduction of new products. A EUR 500 million loan fund was established in cooperation between the bank and the Ministry of Economic Development and Technology, which contributed the basic share. Out of its two programmes financing of companies' working capital was ensured, with two additional programmes for investment financing to follow. In combination with other loan programmes the SID Bank increased the amount of gross loans to companies, while its net loan portfolio contracted due to an increase in impairments.

The financial and economic crisis, especially the decline of certain larger construction companies impacted a lesser amount of export business and stalled acquiring funds for financing such businesses and the poor position of Slovenian economy influenced the smaller scope of insurance. Despite this, SID bank managed to increase the number and scope of individual businesses. Apart from that we need to point out that the crisis broke down most construction-engineer companies, which in the past performed investments abroad. At the same time companies were lowering insurances on investments abroad or even cancelling already concluded contracts, because of expenses.

PKZ also worked under demanding economic conditions. The economic state in countries, which form the greatest proportion of PKZ's portfolio according to premium, insured turnover and exposure, is the most important for PKZ's performance. These countries are in addition to Slovenia Germany, Italy, Russia and Croatia. By the end of the year, signs of recovery were beginning to show for the five most important markets for the insurance company especially, but at an annual level only Germany and Russia achieved positive economic growth. 2013 saw an increased competition of other insurance companies offering credit protection in Slovenian market. Payment indiscipline still presented a major problem on most markets, which PKZ calculated when approving limits. The financial state of certain larger companies additionally deteriorated the financial state of the Slovenian market and PKZ cancelled their limits. This had a negative impact on the scope of business of PKZ, because the majority of insurance holders achieved lower sales in 2013 than in 2012.

The most important markets of the Pro Kolekt Group and Prvi faktor Group are apart from Slovenia also countries of Southeast Europe, where the economic and social position remained difficult with the deepening of the crisis. Low economic activity and payment indiscipline were key factors in the performance of the companies in both groups.

Difficult economic conditions impacted a large number of clients of the **Prvi faktor** Group, which showed in the deteriorating of the group's portfolio, lower turnover and negative result in 2013 for some companies within the group, as well as the Prvi faktor Group as a whole.

The **Pro Kolekt** Group saw a larger number of enforcements in 2013, but with a smaller total value of enforcements, which reflected the current economic position. Despite difficult conditions for enforcements in terms of debt exigibility, the group managed to increase the number of successfully closed cases, which was linked with the wider recognition of the company in the wider space and early engagement of the company in the enforcement process.

The impact of changes in the external environment to the operation of **CMSR** presented in the sense that Republic of Slovenia significantly lowered the amount of budget funds intended for official developmental aid and financial institutions led the policy of lowering costs also in the area of identification and risk management, which reflected in a smaller scope of performed services.

Pro Kolekt and CMSR had a positive business outcome despite the aforementioned problems and smaller scope of performance in 2013.

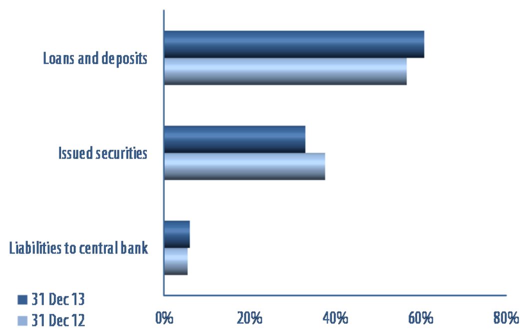
7.2 SID Bank's Performance in Key Areas

7.2.1 Funding and Liquidity

As a specialist banking institution with government guarantee SID Bank obtains long-term funding, primarily on the international financial markets and also on domestic financial markets. In raising its funding the Bank chooses borrowing instruments that allow for adaptability to the needs of financing. Its borrowing is therefore diversified in terms of maturity, size and issue/disbursement dynamics. The Bank endeavours to obtain long-term funding that is comparable in price terms to government funding, offering an appropriate premium over sovereign borrowing.

In order to be able to offer firms and commercial banks long-term financing at the most favourable terms, SID Bank borrowed via various financial instruments in 2013, raising the vast majority of its funding on the international financial markets.

Structure of SID Bank's financial liabilities



Having cooperated successfully with the European Investment Bank (EIB) for several years, in 2013 SID Bank raised with EIB two long-term facilities in the total amount of EUR 350 million and a loan agreement to sustain long-term development resources in Slovenia in the amount of EUR 37.6 million, which was fully disbursed. The total volume resulting from cooperation between SID Bank and the EIB since 2009 reached EUR 1 billion. In 2013, the Bank also disbursed funds from long-term facilities under agreements concluded in previous years with the EIB, in the amount of EUR 87.6 million.

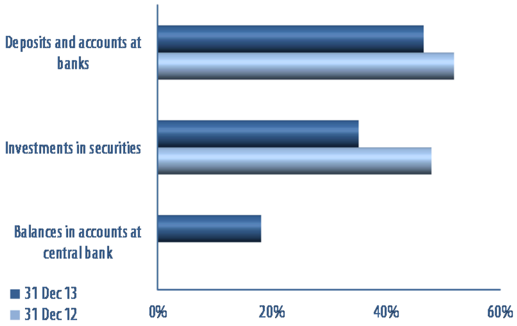
In March 2013 SID Bank issued a 3-year bond at floating interest rate in the amount of EUR 200 million, and in September 2013 another 1-year bond at fixed interest rate in the amount of EUR 100 million. In December, the Bank issued a bond in the amount of EUR 60 million with a maturity of 2 years and 3 months. Although the market situation in 2013 was quite volatile and it even further deteriorated during the year as a result of Slovenia's sovereign downgrading, the two bonds were issued at very favourable conditions on the international financial market and listed on the Vienna Stock Exchange. SID Bank raised favourable funding with the issued bond and redirected it into long-term loans made for the purposes set out in the ZSIRB, while raising its own profile among foreign investors. Therefore, the Bank remained present on the international capital market throughout 2013 despite Slovenia's sovereign downgrade and consequently also SID Bank's downgrade in May 2013.

In 2013, SID Bank raised funds from commercial banks in Slovenia on the interbank money market in smaller amounts for short periods of time and at fixed interest rate.

SID Bank also devotes much attention to managing its liabilities, primarily to mitigate refinancing risk. In June 2013 SID Bank thus executed public repurchase of certain issued long-term bonds on the foreign capital market in the amount of EUR 300 million. Together with other bilateral prepayments in the amount of just under EUR 84 million, the Bank significantly decreased the risk of refinancing the SEDABI 3 bond, which will fall due in April 2015. In accordance with hedge accounting principles, the prepayment of bonds coincided with the termination of interest rate swaps, which had been used for interest rate risk hedging. The Bank generated positive economic effects from all the aforementioned transactions.

Due to difficult and volatile market situation in 2013, SID Bank primarily invested, for liquidity management reasons, in short-term deposits at domestic and foreign commercial banks and in other short-term and medium-term debt instruments of issuers with high credit ratings. Securities transactions were concluded as an alternative investment to complement the core line of business, i.e. lending, and for the needs of liquidity management, not for trading purposes.

Structure of SID Bank's liquid assets



SID Bank's liquidity management investments amounted to EUR 977.7 million at the end of 2013, or 25.6% of total assets. A third of this comprised the securities portfolio in the amount of EUR 344.4 million, and the other two thirds investments in deposits with Slovenian and foreign commercial banks and the central bank in the amount of EUR 633.3 million. Investments in securities mostly consist of Slovenian and foreign government bonds and marketable bonds of other issuers. A majority of the investments are euro-denominated. In its investing activities the Bank gives priority to investments that it can use as collateral for repo transactions, and investments that count towards the first-bucket liquidity ratio on the basis of Bank of Slovenia regulations or allow access to ECB liquidity, and investments considered at least investment-grade assets. Almost 40% of its investments had a rating of at least A- as at 31 December 2013. The deposits are placed with foreign commercial banks with a proper international credit rating, and with Slovenian banks. Investments with a fixed interest rate accounted for more than 94% of total investments for liquidity management purposes as at 31 December 2013.

7.2.2 Financing

In 2013, SID Bank continued with planned adjustment of its business model by developing and introducing systemic solutions and adjusting lending activities to the market situation.

In accordance with statutorily defined purposes, the Bank provided funds to target groups of final beneficiaries either directly or indirectly via commercial banks, all of which were designed to complement the activities of other financial institutions on the market. Said complementary financing services were based on established financing instruments such as loans with or without state aid element, purchase of receivables, risk sharing, project finance and export credits, etc.

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

In light of the volatile business and banking environment during 2013, in particular weak financial situation of the corporate sector, SID Bank introduced select adjustments to financing terms and conditions to theindirect lending segment, with the aim to speed up the intermediation in providing lending to final beneficiaries (i.e. availability of liquidity to final beneficiaries, pricing and other technical adjustments). Accordingly, the Bank has contributed towards ensuring favourable long-term funding for corporates, particularly SMEs, effective transfer of funds to final beneficiaries and indirectly to a faster exit from the crisis. Additionally, SID Bank deepened cooperation with EIB in sense of securing new dedicated loans, as well as assisting other commercial banks operating in Slovenia.

The volume of lending operations was also adversely affected by extraordinary events such as the initiation of controlled liquidation of two banks, both of which used to be solid intermediators of SID Bank's funds, and a capital increase in three systemic banks just before the end of 2013. These factors significantly affected lending dynamics and contributed to declinining need for SID Bank's funds.

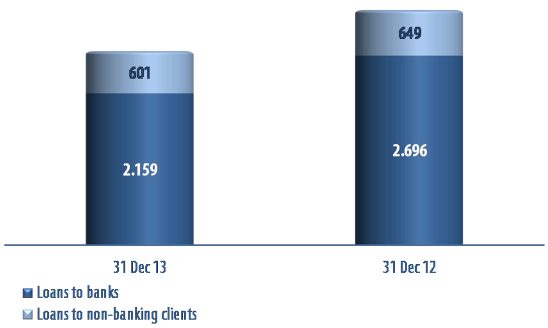
Direct lending accounts for a smaller share of activities; in 2013 it focused primarily towards provision of credit to R&D projects, SMEs and municipalities.

The maturity structure of SID Bank's loan portfolio is in line with its focus on the activities set out by the ZSIRB and the ZZFMGP as nearly all loans are long-term.

SID Bank's loan portfolio at year-end 2013 reflects the downturn in economic activity, the aforementioned reduced absorption capacities of banks and enterprises, and in particular the continuation of lower capital investments.

Commercial banks remained SID Bank's most important partners in provision of financing in 2013, accounting for 78.2% of its loan portfolio (in 2012: 80.6%). Compared to 2012, the decrease is a result of the aforementioned events in the banking sector. Lending to non-banking clients accounted for 21.8% of the loan portfolio as at 31 December 2013, up 2.4 percentage points from 2012.

SID Bank's Loan Portfolio (in EUR million)



In 2013, SID Bank placed directly EUR 247.1 million in new loans (in 2012: EUR 533.6 million). Net loan portfolio at year-end 2013 amounted to EUR 2,760 million (in 2012: EUR 3,345 million), down 17,5% year on year.

Drivers for reduction in loan portfolio are directly linked to the macroeconomic situation, the economic and financial position of the corporate sector, performance of the Slovenian banking system and the lending activity of commercial banks. Subsequently, the absorption capacity of the commercial banks and final beneficiaries for SID Bank's dedicated funds in 2013 revealed the following:

– the rising uncertainty surrounding economic activity and rehabilitation of the banking system;
– a decline in demand and deterioration in corporate financial and credit positions;
– lower investments R&D, energy efficiency, environmental protection, etc., thus reduced demand for dedicated loans provided by SID Bank under its assigned mandates;
– overlap with state support instruments in certain areas;
– extensions and delays in project implementation and corresponding deferrals in disbursements;
– higher borrowing costs for commercial banks, which increased further following downgrads, were passed on by the banks in the form of higher interest rates;
– high exposure to individual sectors and segments on the part of the commercial banks;
– high corporate indebtedness and a lack of capital needed to (co-)finance investments;
– a lack of eligible collateral for corporate loans;
– a shortfall of capital at select banks as a result of negative results and Basel III regulation.

Irrespective of deterioration on the financial markets, SID Bank continued to offer competitive financial services under competitive terms and conditions in accordance with its role, mission and mandates. Despite over-leveraged corporate sector and capital crunch, SID Bank introduced new products and upheld standards of responsible lending, contributing towards provision of financial solutions needed for competitive economy.

Target Groups of Final Beneficiaries

In 2013 SID Bank granted loans, both directly and indirectly, to 474 legal entities established in Slovenia in the total amount of EUR 268.4 million. The eligible costs of the investments and projects financed by SID Bank (indirectly via commercial banks) totalled EUR 397 million, with the Bank's share accounting for 52.5% of said investments. The loans were generally provided to projects which support job creation, corporate growth, reduction of pollution and environmental protection.

In total value terms, 73.3% of new loans were granted for the development of economic competitiveness. In terms of corporate size, 389 SMEs registered in Slovenia (82.1% of all borrowers) received funding in the amount of EUR 112 million (41.8% of loans), of which 81 were sole proprietors (20.8% of all SMEs), who received EUR 7 million (6.3% of total new loans for SMEs).

According to regional breakdown of new loans granted to borrowers registered in Slovenia, borrowers from Central Slovenia accounted for the largest proportion (36.5%), followed by Savinja (18.2%), Upper Carniola

(11.9%), Drava (9.9%), Central Sava (4.4%), and other regions (19.1%).

According to sectoral breakdown, corporates in manufacturing sector were prevalent among borrowers (43.5% of new loans in value terms), followed by trade (14.1%) and financial and insurance services (14%). Within the manufacturing sector, 25.4% of all new loans went to electrical devices producers, followed by metal parts manufacturers (17%), fabricated metal products (14.1%), rubber and plastic products (8.1%), motor vehicles, trailers and semi-trailers (6.4%) and food products (6.2%).

Promotional-Development Platform

The platform, developed by SID Bank, is a technologyof blending and distribution of state budget funds to execute financial measures under national and European public policy, (e.g. loans with or without elements of state aid).

In 2013, the Bank continued with implementation of the Promotional-Development Platform, which on the basis of the 2013-2014 national reform programme and cooperation with the Ministry of Economic Development and Technology, led to financial engineering measure designed to promote the development of SMEs.

Within the Promotional-Development Platform, SID Bank implemented two financial engineering measures in the total amount of EUR 650 million. Companies were given access to three specialised credit lines, two of which were introduced in 2013. In addition to credit line for direct financing of R&D projects, introduced in 2011, the Bank introduced two direct credit lines designed for financing SMEs working capital needs; the first one for loans of up to EUR 100,000 and the second one for loans from EUR 100,001 to EUR 1 million. The maturity of said loans is limted to three years, With both lines including elements of state aid, which are reflected in favourable interest rates.

Withinthe framework of Promotional-Development Platform a total of EUR 17.4 million of new loans were granted in 2013 (in 2012: EUR 99.1 million). Total net loans at year-end 2013 amounted to EUR 67.2 million (in 2012: EUR 27.4 million), an increase of 245.3% year on year. Weighted average maturity of the loans was 8.2 years, whilst weighted average interest rate margin totalled 2 percentage points. The funding from ministry and EIB played a key part in reducing borrowing costs to final beneficiaries. Every euro of funding from Ministry of Economic Development and Technology yielded 3.8 euros of primary lending potential. The loan portfolio, in terms of regional breakdown, was as follows: Savinja (40%), Upper Carniola (25.2%), Central Slovenia (18.9%), Mura (7.5%), Inner Carniola-Karst (2.7%), Southeast Slovenia (1.5%), Gorizia (1.4%), Drava (1.1%), Lower Sava (0.8%), Carinthia (0.6%), and Coastal Karst (0.4%).

According to sectoral breakdown, loan portfolio of promotional-development platform was as follows: manufacturing (81.1%), professional, scientific and technical services (7.3%), trade (3.2%), mining (3.1%), IT and communication (2.8%), construction (1.3%), transportation and warehousing (0.6%), catering (0.3%), water supply (0.3%) and miscellaneous business services (0.1%).

With introduction of the aforementioned financing measures, Ministry of Economic Development and Technology and SID Bank contributed towards improved access to long-term financing of MSMEs and R&D projects, which are based on in-house research and development activities aimed at increasing their competitiveness and entry into new markets.

Promotional-development platform represent an instrument by which Slovenian borrowers can access financing under more favourable terms (i.e. longer maturity, lower interest rates, collateral), which, on the other hand, delivers multiplier effect on state budget funds.

In line with its mandate to increase the effectiveness and synergies with other national promotional, such as Slovenian Enterprise Fund, Slovenian Regional Development Fund, the Eco Fund and other similar institutions, SID Bank has taken an active role in the process of establishing the Common Development Platform organised by Ministry of Economic Development and Technology.

7.2.3 Operations under the Republic of Slovenia's Authorisation

Insurance against Non-Marketable Risks

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

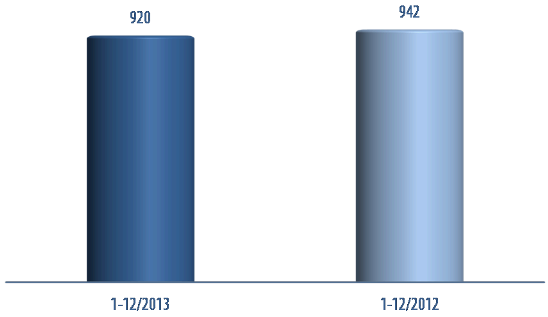
In carrying out its insurance operations on behalf of and for the account of the Republic of Slovenia against non-marketable risks, the Bank has consistently disclosed an increase in the volume of insurance in recent years. The crisis, however, saw a reversal in the growth trend in 2011.

Although the volume of insurance operations has been declining, SID Bank provides appropriate support to the economy, thereby achieving satisfactory results. The number of policies issued and policy holders has been increasing every year. The shortfall in the volume of insurance operations due to the bankruptcy of large Slovenian construction companies was successfully made up for with other minor operations.

Volume of Insurance Operations

The volume of insurance operations against non-marketable risks stood at EUR 920 million in 2013, down 2.4% on the previous year. This was 10% of the limit on potential new annual liabilities defined in the ZZFMGP[11].

Volume of insurance operations (in EUR million)



Reinsurance of short-term export receivables (renewable insurance of non-marketable risks), credits, guarantees and pre-shipment credits (49.4%) and insurance of outward investments (44.2%) accounted for the largest proportion of the volume of realised insurance operations, while the medium-term insurance operations (6.4%) accounted for a minor share.

In 2013 Russia accounted for the largest proportion of insurance of short-term export credits (receivables), investments and insured medium-term credits, followed by Bosnia and Herzegovina, Croatia, Serbia, Ukraine, Belarus, Kazakhstan, USA, and other countries.

Insurance of Short-Term Export Credits (Receivables) and Guarantees

In the insurance and reinsurance of export credits (receivables), guarantees and for pre-shipment credits, the volume of short-term insurance stood at EUR 454.4 million, up 2.8% on 2012. The increase was partly a result of the economic crisis and related decision by private insurance corporations to exit certain markets and sectors, and partly the volume was in direct correlation with increased exporter's concern about customer default. Another factor in the increase was the renewed growth in exports and consequently the increase in credits insured by primary insurers.

The reinsurance premium, however, did not follow the increased volume of reinsured credits in 2013, having

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

dropped 1.5% to EUR 3.1 million, primarily as a result of newly concluded contracts between major insured entities and primary insurers (SID-PKZ) at more favourable insurance conditions. In accordance with the increased volume of insured credits, certain other goals were achieved, such as geographical dispersion and the dispersion of assumed risks in terms of the insurance of credits to the larger number of foreign debtors, more supported exporters (over 100 companies) and lower risks in terms of the maturity of insured credits. In accordance with trends from previous years, the prevailing types of insurance were insurance of non-commercial risks, which the private market was not ready to take on (e.g. Russia, Iran, Uzbekistan, Argentina, Turkmenistan, Tajikistan, etc.), followed by the insurance of commercial risks on the Russian market (distributors of pharmaceutical products).

Insurance of Medium-Term Export Credits

The volume of medium-term export credits vary each year due to a small number of projects and their size. The volume of insurance of medium-term export transactions (credits and guarantees) amounted to EUR 58.8 million in 2013, up 4.9 times on the previous year.

A major part of insured medium-term credits, secured guarantees and loans for the preparation for export refers to the export of wood processing machinery, bakery machinery and technological equipment, engineering and technical advisory services, export and installation of the fabric cutting line, export of hydro turbines and the construction industry. The main export countries were Belarus, Turkey, Germany, Sweden, Great Britain, China, Canada and other countries.

Regardless of the fact that insurance of medium-term operations grew in 2013, it is evident that the growth is strongly connected with the stoppage of construction works. The stoppage was a result of the credit crunch and more competitive lending offered by Russian banks compared with Slovenian banks. As a result of the slow recovery of the Slovenian economy and the financial sector and the subsequent increased difficulty in obtaining new export business, there has been no sign of increased demand among exporters for insurance of medium-term export credits in south-eastern Europe. A relatively small number of supported individual projects requiring medium-term insurance and, usually, also financing, is a result of the structure of Slovenian economy, which is reflected in a smaller number of such export transactions. Nonetheless, there were still some buyer's credits insured in 2013, of which one was a major buyer's credit, which is material for the volume of insurances in 2013.

Exposure from insurances of medium-term export credits, guarantees and pre-shipment credits (insurance policies and offers) stood at EUR 100 million as at 31 December 2013, with Belarus as the prevailing among countries in terms of exposure with a 53.2% share. In 2013, premium from such insurances amounted to EUR 3 million and were, in line with the higher realised volume of insurance of such export transactions, higher by 4.4 times.

Claims paid from the insurance of medium-term export credits amounted to EUR 3.6 million, down almost 33.3% on 2012.

Insurance of Outward Investments

The volume of outward investments amounted to EUR 406.6 million in 2013; this amount comprises renewals of previously insured investments, which actually entail newly insured investments, and newly insured outward investments. The volume was down 16.8% on the previous year, primarily as a result of (i) the downturn in corporate investment cycles, (ii) certain key countries' convergence with the EU and the consequent reduced risk, (iii) repayment of insured loans and, above all, (iv) the premature cancellation of certain major insurance policies due to austerity measures of companies.

New insurance relates exclusively to the insurance of non-shareholder loans or loans to subsidiaries of Slovenian investors abroad, within which commercial and non-commercial risks may be covered. 2013 saw newly insured investments in metal processing, manufacturing, food, and trade in motor fuels, electronics and chemical industries which were focused primarily in the area of the south-eastern Europe, USA and Italy.

The diminishing risk of the target countries is reducing the demand for insurance of equity. There is also a cost impact, as loan insurance is rising in price. There were thus no new insurance operations for equity holdings in 2013.

The decline in the volume of insured investments in 2013 was the result of regular expiries of insurance policies, both the insurance of equity and non-shareholder loans. The regular repayment of insured loans is also having an impact, as a result of which both volume and exposure are declining. Regardless of the said decreases, we estimate that economy support in terms of the insured investments was successful as the planned amount for insurance of new transactions stood at EUR 84.0 million, while the realised amount totalled EUR 86.8 million.

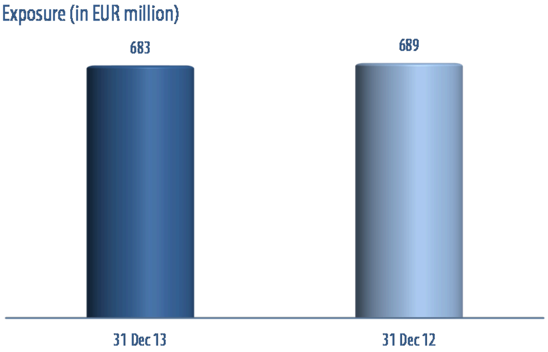
Exposure from insured investments as at the end of 2013 was EUR 366.1 million, down 5.8% on the end of 2012 as a result of the above-mentioned reasons.

In the structure of insured investments, investments in Serbia account for the largest share, followed by Bosnia and Herzegovina, Croatia, Russia, USA, Montenegro, Italy, Macedonia, Albania and Turkey. Premium from insurance of investments dropped by 6.1% in 2013, in line with the lower volume of insured investments, and they stood at EUR 2.9 million.

Exposure

Exposure from current insurance policies amounted to EUR 677.5 million at the end of 2013. Exposure from firm insurance commitments (offers), which under the ZZFMGP is included in the total net exposure, amounted to EUR 5.3 million.

Exposure (in EUR million)



Total exposure from insurance operations for the account of the state and from offers amounted to EUR 682.8 million at the end of 2013, down 0.9% on the end of 2012. The decline in exposure is the result of regular expiries of insurance policies (insured medium-term credits, equity and non-shareholder loans), and also from early cancellations. The main reasons are in the diminishing risk of the target countries, which has reduced the interest for insurance of equity.

The exposure amount represents 32.7% of the limit defined in State Budget 2012 Implementation Act (ZIPRS) and 2.5% of the limit defined in the ZZFMGP.[12]

The largest exposures in the insurance portfolio in 2013 were disclosed against Russia (27.1%) and Serbia (16.8%), which required additional monitoring of the political and economic situation in these countries.

Insurance Technical Result and Items

EUR thousands	31-Dec-2013 or 1-12/2013	31-Dec-2012 or 1-12/2012	31 Dec 2013 31 Dec 2012 Index
Premiums	9.075	6.946	130,7
Potential claims	6.004	3.467	173,2
Claims under consideration	1.794	10.309	17,4
Claims paid	(9.792)	(6.679)	146,6
Number of claims	7	4	175,0
Recourse	1.074	490	219,2
Surplus of income	640	2.122	30,2

Premium from insurance against non-marketable risks amounted to EUR 9.1 million in 2013, up 30.7% on 2012. The increase in insurance premium was primarily a result of the insurance of a major buyer's credit (EUR 43.6 million), which consequently contributed to a higher premium paid. The rest in the structure of paid premium consisted of (re)insurance of short-term export credits and the insurance of outward investments. Income from processing fees is negligible due to SID Bank's practice of refunding fees or including them in the premium in the case of realization of individual export transactions or investments.

Claims paid in 2013 stood at EUR 9.8 million, which is 46.6% higher than in the previous year and the highest in the recent years. The majority of claims paid related to insurance of a non-shareholder loan in the amount of

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

Under the limit defined by the ZZFMGP in connection with the amount of assumed valid liabilities from insurance operations, active reinsurance and retrocession, other operations, guarantees and other sureties, the figure may not exceed the most recent officially determined value of Slovenia's annual exports of merchandise and services (exports stood at EUR 26,797 million in 2012, source: IMAD 2013).

EUR 6 million, a bank guarantee against the risk of unfair calling (Bosnia and Herzegovina) and to insurance of a buyer credit (bank to bank) (Kazakhstan), while a lesser proportion (1.2%) related to claims from reinsurance of short-term export credits (Ukraine, Greece and Iran).

Claims under consideration (claims filed) stood at EUR 1.8 million as at 31 December 2013. A majority of claims under consideration comprises medium-term transactions in the total amount of EUR 1.1 million, while a figure of EUR 0.7 million comprises claims from reinsurance and insurance of short-term export credits.

In 2013 the volume of **potential claims** (EUR 6 million) increased by 73.2% compared to 2012 (EUR 3.5 million), while a majority of potential claims related to reinsurance and insurance of short-term receivables due to the aforementioned crisis situation.

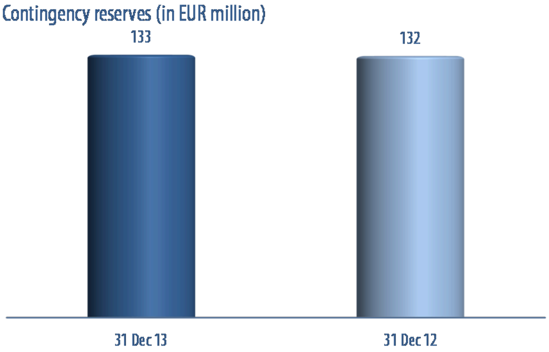
The **result of operations** for the account of the Republic of Slovenia was positive, despite claims payouts. The surplus of income over expenses amounts to EUR 0.6 million, down 69.7% on the previous year.

Contingency Reserves

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

The aim of the investment policy for the contingency reserves is to maintain the ability to settle insurance claims. The contingency reserves are held in liquid assets equivalent to the sum of potential claims and claims under consideration from non-marketable insurance, or at least 20% of the invested funds. The amount of liquid assets varies, and depends primarily on the projected payout of claims and the resulting liquidity position for the contingency reserves.

Contingency reserves (in EUR million)



The positive result generated in insurance operations in 2013 thus brought an increase in the contingency reserves, which amounted to EUR 133 million at the end of 2013.

In total, assets of contingency reserves amounted to EUR 144 million.

Interest Rate Equalisation Programme

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

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

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

Guarantee Scheme for Corporates

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

In line with its legal authorisations SID Bank continued to manage the portfolio deriving from ZJShemRS in 2013. As a result of the deterioration in business conditions, which meant that companies were unable to consolidate their business as expected at the time the measure was introduced, the vast majority of companies again embarked on a restructuring of the credit portfolio. The commercial banks therefore examined the restructuring of loans with government guarantees, and verified and coordinated their proposals with SID Bank in line with the legal requirements. When the companies failed to consolidate their business, the commercial banks made use of their legal possibilities and exercised the credit protection, i.e. the government guarantee. In line with its authorisations SID Bank obtained, reviewed and coordinated the documentation for modifying the terms of government-guaranteed loans and processed the claims for calling guarantees. Where it identified breaches that resulted in a loan agreement being declared null and void, the repayment of a called guarantee or the payment of a contractual penalty, SID Bank filed motions with the State Attorney's Office for a voiding suit, a suit for the repayment of a called guarantee or a suit for the payment of a contractual penalty.

After diligent review SID Bank in 2013 issued 149 approvals for modifying the terms of government-guaranteed loans. It rejected 23 applications where breaches of law were identified, while 20 applications were still being processed at the end of 2013 because of requests for extra documentation. On account of established violations of statutory provisions or business decisions of banks, 13 negative annexes were concluded, with which banks renounced the state guarantee.

SID Bank received 83 requests for issued guarantees to be called in 2013. A total of 95 requests for calling were granted to commercial banks by the Ministry of Finance in 2013 (33 of these requests were received in 2012) having met the conditions under the ZJShemRS, based on which a total of EUR 22.6 million was paid out. A total of EUR 69.3 million was paid out to banks by the Ministry of finance between 2009 and 2013 on the basis of 236 requests for calling.

At the end of 2013 there were 213 loan agreements secured by government guarantee still active at the commercial banks, the stock of principal amounting to EUR 212.8 million in total as at 31 December 2013.

Guarantee Scheme for Private Individuals

The Act on the Natural Persons Guarantee Scheme of the Republic of Slovenia (hereinafter: the ZJShemFO) allowed private individuals to obtain a government guarantee for loans of up to EUR 100,000 or up to EUR 10,000 depending on the category of the borrower. As a government anti-crisis measure the guarantee scheme for private individuals covered four categories of borrower: temporary employees, first-time home buyers, young families and the unemployed. The total guarantee quota to be allocated under the ZJShemFO between 2009 and the end of 2010 was EUR 350 million, of which EUR 50 million was earmarked for unemployed borrowers. The legal deadline for issuing government guarantees under this law was 31 December 2010. As at 31 December 2013 there were 283 loans outstanding, and the total stock of principal was EUR 6.2 million.

SID Bank received seven requests for guarantees to be called in 2013 (bringing the total between 2010 and 2013 to 80). Six requests for calling were granted to commercial banks by the Ministry of Finance in 2013 having met the conditions under the ZJShemFO, based on which a total of EUR 25 thousand was paid out. All the guarantees paid out related to the category of unemployed borrowers. SID Bank initiates a recovery procedure for the guarantees paid out, provided that the conditions have been met.

Guarantees for Investments

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

On the basis of the announcement of the third tender of government guarantees for corporate liabilities from loans raised at banks and savings banks earmarked for financing investments in development projects, SID bank received three applications for the issue of guarantees in the total amount of EUR 3 million. Government guarantees of EUR 1.2 million were issued. The total stock of loans supported by government guarantee was EUR 13.8 million at the end of 2013, within the framework of which the government guarantee amounted to EUR 10.3 million.

The fourth tender was announced at the end of 2013; the deadline for applications submitted by companies is 30 October 2014.

Management of Emission Allowances and Kyoto Units

Pursuant to Article 127 of the Environmental Protection Act (ZVO-1) SID Bank continued acting as the official auctioneer of greenhouse gas emission allowances in 2013, in accordance with the Commission Regulation No. 1031/2010 on the timing, administration and other aspects of auctioning of greenhouse gas emission allowances pursuant to Directive 2003/87/EC of the European Parliament and the Council establishing a scheme for greenhouse gas emission allowances trading with the Community, amended by Commission Regulation No. 1210/2011.

In auctions organised by the joint auctioning system of 24 EU members (the European Energy Exchange), SID Bank sells quantities of emission allowances on behalf of the Republic of Slovenia (set out by the aforementioned regulation, the relevant European Commission decisions and the auction timetable) and transfers the proceeds to the account of the Republic of Slovenia.

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

Transparency of Financial Relations Between SID Bank and the Republic of Slovenia

To ensure the separate recording of the individual activities pursued by SID Bank under Republic of Slovenia authorisation, the Bank has put in place a system of cost centres and cost drivers against which transactions occurring in the pursuit of individual business activities are recorded. This is also the basis for determining the direct expenses of an individual activity. A separate financial statement is compiled (point 1 of the Appendices) for insurance against nonmarketable risks and the Interest Rate Equalisation Programme, in which the Bank also manages assets allocated for management.

Activity

EUR thousands	Income	Expenses
Insurance against non-marketable risks	1,894	(1,940)
Interest Rate Equalisation Programme	54	(59)
Guarantee scheme for corporates	191	(607)
Guarantee scheme for private individuals	8	(63)
Guarantees for investments	5	(195)
Auctions of emission allowances	22	(22)

The table discloses the total (direct and indirect) revenues and expenses for individual activities generated in 2013.

The revenues for an individual activity represent the fees that SID Bank receives for pursuing the activity on the basis of contracts or provisions of law. The indirect expenses for an individual activity are determined on the basis of criteria set out in a bylaw "Criteria for allocating indirect costs of activities under Republic of Slovenia authorization".

7.3 Performance of the SID Bank Group

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

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

EUR thousands	31 Dec 2013 or 1-12/2013	31 Dec 2012 or 1-12/2012	Index
Total assets	65,852	65,398	100.7
Total equity	25,410	24,058	105.6
Gross claims incurred	11,951	12,579	95.0
Loss ratio	62%	62%	
Net profit	2,727	2,689	101.4

In 2013, the business environment was also demanding for PKZ because of the slow growth of the GDP rates or recession at the most important markets for PKZ (Slovenia, Germany, Russia, Italy, Croatia), as well as because of even greater payment indiscipline. During the preparation of goals for 2013 (in the autumn of 2012), the national economic forecasts were more favourable than they in fact presented at a later date. In 2013, the competition of insurance corporations, which offered insurance of claims on the Slovenian market, greatly increased, and corporations were intensively using other alternative ways to manage credit risks. Credit approvals were still largely limited facing the poor financial situation of buyers and certain greater limits were even cancelled because of the deterioration of the situation. Because of the above mentioned reasons, PKZ in 2013 accounted for 5% less premium than in the previous year and did not achieve the set goal.

In terms of claims in 2013, the adopted measures of PKZ also proved somewhat effective in the crisis situation and the loss ratio was despite a very large claim, which was settled in 2013, favourable. The aforementioned damage claim in 2013 was highly insured and recourse settlement was concluded very quickly and recourse already partially settled in 2013. For the second, the largest claim in the past, the conditions for compulsory settlement worsened by the end of 2013 and recourse claims were impaired. Also in this case, the insurance values were high, which is why the effects of changes to the results were mitigated. For the rest of the portfolio the total number of accounted claims in 2013 was 5% lower than in 2012, there was a smaller number of claims, whereas the contingency reserves for the previous periods improved. In 2013, PKZ achieved better claims results than planned. Net income from premium exceeded the net expenses for claims by EUR 4.9 million (2012: by EUR 4.2 million), which significantly contributed to the high outcome.

Because of the favourable development of claims from previous years, the income from reinsurance commissions in 2013 increased by an additional recognized commission for previous claims years (EUR 0.4 million) and this was why despite the lower amount of business it exceeded that of 2012 by 22%. The outcomes of 2013 were on the other hand negatively influenced by lower interest rates leading to 17% lower income from interest. The lowering of the rates was additionally impacted by the redirection of investments of PKZ to more dispersed and safe investments. PKZ otherwise invests exclusively to debt financial instruments and deposits of Slovenian banks. On 31.12.2013 60% of all investments represented securities of EU Member States or such for which the state guarantees. In 2013, more demanding business operation (competition, expectations of the insurance holders, more demanding regulations) also led to an increase in costs, by 9%.

Net profit amounted to EUR 2.7 million, which is close to that of 2012 and exceeded the set goals for 2013.

In 2014, PKZ still expects poor payment discipline on its relevant markets. Because the year 2013 marked a large claim payout, PKZ estimates that paid claims in the following year will be lower. Because of high claims payouts in the past, it also expects even more activity in terms of recourse claims, both within PKZ, as well as in cooperation with the companies of the SID Bank Group. PKZ will still employ fierce conditions for insurance assumption, which have proved successful in the past years and therefore estimates that in spite of harsh conditions it will maintain a stable loss ratio. When considering the premium and claims activities and the expected increase in costs because of greater working intensity, PKZ expects a positive outcome for 2014, but lower than in 2013.

In 2014, PKZ will speed up the optimisation of internal processes and reorganize the department for risk assumption. It will continue to complement information support for insurance holders (PKZ-Net, website renovation), as well as make certain internal improvements (improving the document system by relation and data storage). It plans more intensive preparations for Solvency II by acknowledging new preparatory EIOPA guidelines and new Slovenian adopted regulations based on the aforementioned guidelines, which are scheduled for 2014.

7.3.2 Prvi faktor Group

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

Prvi faktor, Ljubljana EUR thousands	31 Dec 2013 or 1-12/2013	31 Dec 2012 or 1-12/2012	Index
Total assets	101,641	135,223	75.2
Total equity	(20,071)	4,812	(417.1)
Net profit/loss	(24,883)	603	(4,126.5)
Purchased receivables	217,669	267,238	81.5

Prvi Faktor Group EUR thousands	31 Dec 2013 or 1-12/2013	31 Dec 2012 or 1-12/2012	Index
Total assets	241,101	315,038	76.5
Total equity	(20,301)	8,722	(232.8)
Net profit/loss	(29,107)	1,090	(2,670.4)
Purchased receivables	816,634	929,303	87.9

Purchased receivables at the Prvi faktor Group amounted to EUR 816.6 million in 2013. The figure was down 12.1% on 2012, and 8.7% below the 2013 plan. The subsidiaries accounted for 73.3% of the turnover of the Prvi faktor Group. Prvi faktor Belgrade and Prvi faktor Sarajevo exceeded their forecast turnover in 2013, while Prvi faktor Ljubljana and Prvi faktor Zagreb generated 9.3% and 25.7% less turnover than expected, respectively. Prvi faktor Zagreb continues to generate the largest proportion of the Group's turnover. In 2013, it accounted for 33.3% of the total turnover, down 7 percentage points on the previous year.

The majority of the receivables financed by the Prvi faktor Group arose on the basis of the delivery of goods or the rendering of services between entities in Slovenia. Domestic factoring accounted for 84.8% of the total turnover, export factoring for 9.4% and import factoring for 5.8%.

The Group's total assets at consolidated level amounted to EUR 241.1 million as at 31 December 2012, down 23.5% on 31 December 2012. In terms of total assets, the largest companies in the Prvi faktor Group are Prvi faktor Zagreb, whose total assets at the end of 2013 stood at EUR 102.1 million, and Prvi faktor Ljubljana, whose total assets stood at EUR 101.6 million at the end of 2013.

Due to the negative results generated by Prvi faktor Ljubljana and Prvi faktor Belgrade, the Group's result was negative as at 31 December 2013. The other two Prvi faktor Group companies generated positive operating results. The loss is a result of new high impairments with certain important clients of the Group, and high tax expenses related with the reversal of deferred tax assets in Prvi faktor Ljubljana, and thin capitalisation of Prvi faktor Belgrade. As at the end of 2013, the Group thus disclosed negative equity.

The volume of Group's operations as well as its total assets decreased in 2013. The generated income and the cost-effectiveness of operations were satisfactory. Earnings before impairments and taxes were positive and favourable considering the volume of assets and operations.
In 2014 the Prvi faktor Group will endeavour to maintain its shares on individual markets where Group companies are present, and to further improve the services offered by the Group to its clients. The Prvi faktor Group plans to keep the volume of operations at the level of 2013, and to end 2014 with profit.

7.3.3 Pro Kolekt Group

Pro Kolekt, družba za izterjavo, d. o. o. (hereinafter: Pro Kolekt, Ljubljana) was established by SID in 2004 and is under its 100% ownership. The company's nominal capital amounted to EUR 418.8 thousand as at 31 December 2013. The nominal value of SID Bank's equity holding in Pro Kolekt, Ljubljana was EUR 418.8 thousand.

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

The company's Director is Mr Leon Zalar. SID Bank's Management Board acts as the company's General Meeting.

The Pro Kolekt Group consists of the parent company Pro Kolekt, Ljubljana and a network of the following subsidiaries in south-eastern Europe:

- Pro Kolekt d. o. o., Zagreb;
- Pro Kolekt d. o. o., Skopje;
- Pro Kolekt, društvo za naplato duga d. o. o., Belgrade;
- Pro Kolekt Credit Management Services Bucuresti S.R.L., Bucharest;
- Pro Kolekt Sofia OOD, Sofia;
- Pro Kolekt d. o. o., društvo za financijsko posredovanje, Sarajevo.

Pro Kolekt, Ljubljana EUR thousands	31 Dec 2013 or 1-12/2013	31 Dec 2012 or 1-12/2012	Index
Total assets	496	584	84.9
Total equity	262	255	102.7
Net profit/loss	9	(39)	(23.1)
Value of debts recovered	7,174	5,064	141.7

Pro Kolekt Group EUR thousands	31 Dec 2013 or 1-12/2013	31 Dec 2012 or 1-12/2012	Index
Total assets	4,191	4,275	98.0
Total equity	226	272	83.1
Net profit/loss	(19)	(22)	86.4
Net profit/loss of majority interest	(25)	(31)	80.6
Value of debts recovered	15,927	12,294	129.6

Pro Kolekt, Ljubljana accepted 885 new cases for recovery in 2013 with a total value of EUR 13.5 million. The Pro Kolekt Group accepted 3,354 new cases for recovery with a total value of EUR 35.5 million. Pro Kolekt, Ljubljana ended the year with 460 successfully closed cases, with a total amount of EUR 7.2 million, while the amount actually recovered was EUR 4 million. The Pro Kolekt Group successfully closed 1,364 cases, with a total value of EUR 16 million, while the amount actually recovered was EUR 9.2 million.

Pro Kolekt, Ljubljana, and as a result also the Pro Kolekt Group focused on intensive marketing of its services and products, in particular credit rating information which was implemented using SID Bank methodology in 2013. The Group prepared 8,191 credit ratings in the total amount of EUR 345 thousand. The company has developed its PK-NET online portal where it publishes a debtors' blacklist and offers online monitoring of individual recovery procedures.

Income generated by Pro Kolekt, Ljubljana, stayed at the same level to that in 2012, while expenses dropped by approximately 10%. The expenses of the Pro Kolekt Group were also down approximately 10% on 2012, however, the Group's income was down 10%, too, on 2012 (unconsolidated data).

7.3.4 Centre for International Cooperation and Development

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

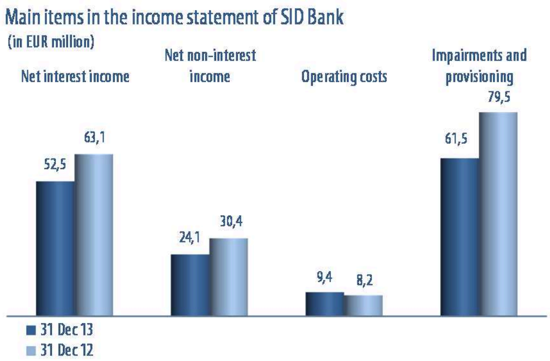
The CMSR's governance bodies are the director and the council. The foundation is represented by its director, Mr Gašper Jež. The council has six members. SID Bank's representatives on the council are Mr Sibil Svilan (MSc), who is also the Chairman of the Council, and Mr Bojan Pecher.

EUR thousands	1-12/2013	1-12/2012	Index
Operating revenues	308	358	86.0
Total project value	2,753	6,873	40.1

In 2013 the CMSR continued its cooperation of many years with SID Bank, its co-founder and most important business partner. In a medium term, CMSR will adapt to the new situation by entering into new business relationships, in particular with institutions which are aware of the importance of analysing and identifying risks, and investing in soft information, and by engaging in the advisory activity for the needs of the private sector.

7.4 Operations Reflected in the Income Statement

Financial Results of SID Bank



SID Bank recorded a pre-tax profit of EUR 5.7 million in 2013, which equals 97.2% of its profit in 2012.

Bank's interest income stood at EUR 117.8 million in 2013, down 24.7% on 2012, while interest expenses amounted to EUR 65.3 million, which is 30.1% less than in 2012. **Interest margin** stood at EUR 52.5 million, down 16.8% on 2012. Measured to the average assets, the interest margin was 1.3%. Net interest income accounted for 68.6% of the total net income (in 2012: 67.5%).

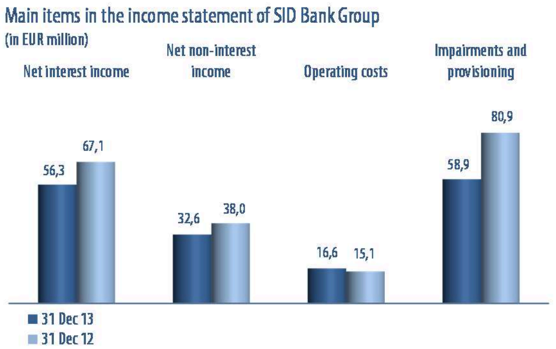
Net non-interest income amounted to EUR 24.1 million in 2013, down 20.7% on total net non-interest income in 2012. Gains from early prepayment of the SEDABI 3 bond in the amount of EUR 15.2 million accounted for a majority part of non-interest income, followed by net fee and commission income in the amount of EUR 2.4 million, fee for the performance of operations under authorisation in the amount of EUR 2.2 million, and realised gains from financial assets and liabilities measured at fair value through profit or loss in the amount of EUR 1.6 million. Other net non-interest income stood at EUR 2.7 million in total, of which dividend income in the amount of EUR 1.4 million, changes in fair value in hedge accounting amounted to EUR 1 million and other net income was EUR 0.3 million.

Bank's financial intermediation margin in 2013 stood at 1.9% (in 2012: 2.3%).

The **cost income ratio** (**CIR**) remained low in 2013 (12.2%), which points to effective cost management, although the ratio is slightly higher than in 2012 (8.7%), which is a result of previous growth and specific products in the changed business model. Administrative expenses stood at EUR 8.8 million in 2013, and amortisation and depreciation totalled EUR 0.6 million. Personnel expenses amounted to EUR 6.2 million, up 12.7% on 2012. Higher personnel expenses are primarily a result of recruitments of new employees, as the headcount at the end of 2013 was 15 higher than at the end of 2012. Costs of material and services together stood at EUR 2.6 million.

Net **impairment and provisioning** costs amounted to EUR 61.5 million in 2013, which equals 77.4% of net impairments and provisions from 2012. Net impairments totalled EUR 68 million, and provisions totalled EUR 6.5 million.

Financial Result of the SID Bank Group



The SID Bank Group recorded a pre-tax profit of EUR 13.5 million in 2013, up 49.3% on 2012.

Net interest income amounted to EUR 56.3 million in 2013, down 16% on 2012. Interest income in the amount of EUR 126.3 million was down 24.3%, and interest expenses in the amount of EUR 70 million were down 29.8% on 2012. Net interest income accounted for 63.3% of total net income, which is similar to 2012 (63.8%).

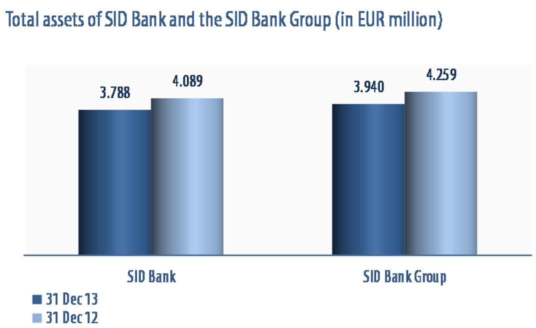
Net non-interest income amounted to EUR 32.6 million, down 14.1% on 2012. Net non-interest income comprised:

- net fee and commission income in the amount of EUR 5.7 million;
- gains on financial assets and liabilities not measured at fair value through profit or loss in the amount of EUR 15.6 million;
- net income from insurance operations in the amount of EUR 8.7 million;
- fee for the performance of operations under authorisation in the amount of EUR 2.2 million;
- gains on financial assets and liabilities measured at fair value through profit or loss in the amount of EUR 1.6 million;
- changes in fair value in hedge accounting in the amount of EUR 1 million;
- other net expenses in the total amount of EUR 2.1 million.

The SID Group's **costs** amounted to EUR 16.6 million in 2013, up 9.7% on 2012. Personnel expenses amounted to EUR 10.9 million, up 8.7% on 2012. The main factor in the rise in costs was recruitment of new employees, as the headcount in the SID Bank Group at the end of 2013 stood at 18 more than at the end of 2012. Costs of material and services amounted to EUR 4.6 million, up 14.2% on 2012. Amortisation and depreciation were up 1.4%, totalling EUR 1 million.

Net **impairment and provisioning** costs of the SID Bank Group totalled EUR 58.9 million, down 27.2% on 2012.

7.5 Operations Reflected in the Statement of Financial Position

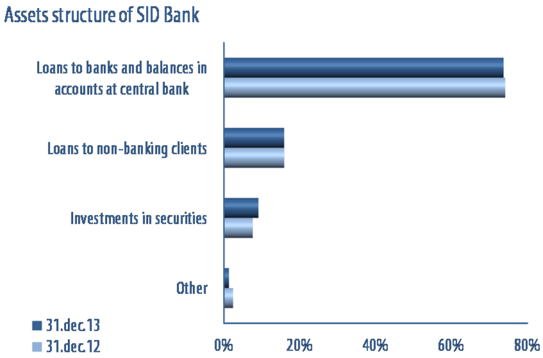


SID Bank's **total assets** stood at EUR 3,787.6 million at the end of 2013, accounting for 92.6% of total assets from 2012.

Considering SID Bank's predominant influence in the SID Bank Group, the specific nature of the Group, and mutual relationships in the Group, the total assets of the SID Bank Group were only 4% higher than the total assets of SID Bank, thus the structure of the Group's assets and liabilities is very similar to those of the Bank.

The SID Bank Group's total assets in 2013 stood at EUR 3,939.6 million, down 7.5% on the end of 2012.

SID Bank's Assets



Loans to banks accounted for a majority share among all investments in the Bank's total assets in 2013. Loans to banks include loans and deposits at banks; these stood at EUR 2,614.5 million as at the end of 2013, down 13.7% on the end of 2012. Long-term loans account for 83% of loans to banks, and the rest is short-term deposits at banks. Loans to banks account for 69% of the Bank's total assets.

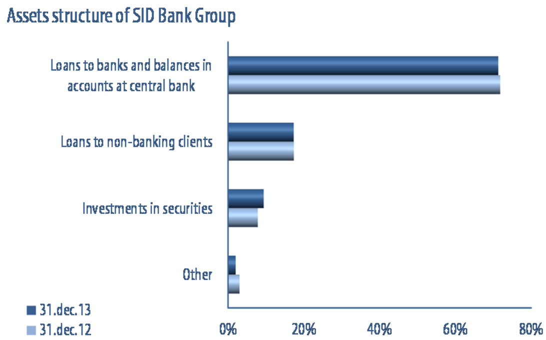
Loans to non-banking clients declined by 7.4% in 2013 and stood at EUR 601.1 million at the end of the year. The stock of loans declined by EUR 48.2 million, primarily as a result of an increase in loan impairments, which were up EUR 74.9 million in 2013. Loans to non-banking clients accounted for 15.9% of the Bank's total assets as at 31 December 2013.

SID Bank had EUR 177.4 million of assets in the **account at the central bank** at the end of 2013.

Investments in **securities** increased by EUR 34.7 million in 2013 and stood at EUR 344.4 million as at the end of 2013. Their share in the Bank's total assets grew from 7.6% to 9.1%.

Other assets comprise:
- the fair value of derivatives held for hedging (EUR 36.1 million), which decreased by EUR 41.9 million in 2013, mainly due to the closure of contracts on interest rate swaps as a result of early repayment of securities;
- investments in the equity of subsidiaries and joint ventures (EUR 8.8 million), which decreased by EUR 3.1 million due to the impairment of investment in Prvi faktor Ljubljana;
- property, plant and equipment and intangible assets in the amount of EUR 4 million;
- other assets in the total amount of EUR 1.1 million.

Assets of the SID Bank Group



Loans to banks at the end of 2013 stood at EUR 2,631.1 million, down 13.9% on 2012. Regardless of this, they have preserved the largest share in the structure of the Groups total assets, i.e. 66.8% share.

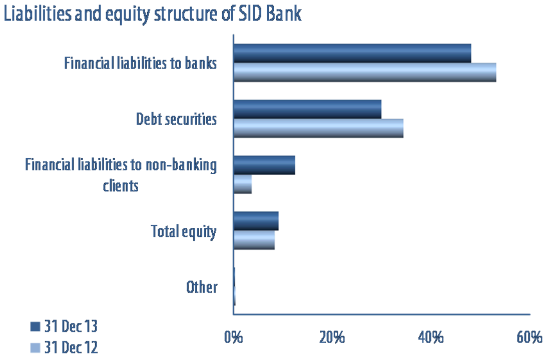
Loans to non-banking clients declined by 7.7% or EUR 56.6 million, and amounted to EUR 682.2 million at the end of 2013. Loans and guarantees were up EUR 22.7 million, factoring receivables were down EUR 7.7 million, and value adjustments were up EUR 71.5 million. Loans to non-banking clients kept their 17.3% share in the total assets in 2013.

As at the end of 2013, the SID Bank Group had EUR 177.4 million of assets **in hand and in accounts at the central bank**.

Investments in **securities** were up 10.9% or EUR 36.3 million at the end of 2013 compared to the end of 2012. At the end of 2013 the investments amounted to EUR 370.1 million, and their share in the structure of total assets increased from 7.8% to 9.4%.

Other assets include:
- the fair value of derivatives held for hedging in the amount of EUR 36.1 million;
- reinsurers' assets and receivables from insurance operations in the amount of EUR 28.9 million, down 9% on the end of 2012;
- property, plant and equipment, and intangible assets in the amount of EUR 8.1 million, down EUR 0.9 million on the end of 2012;
- other assets in the amount of EUR 5.7 million.

Liabilities and Equity of SID Bank



SID Bank's liabilities and equity as at the end of 2013 comprised liabilities in the amount of EUR 3,441.8 million (90.9% of liabilities and equity), and total equity in the amount of EUR 345.8 million accounting for 9.1% in the structure of liabilities and equity.

Deposits and borrowings from banks accounted for a majority part of liabilities, i.e. 42.7%; including the liabilities to the central bank, this share amounted to 48.1% at the end of 2013. **Liabilities to banks** stood at EUR 1,615.5 million as at the end of 2013. Liabilities decreased by EUR 353.4 million or 18%, of which EUR 313 million due to the changed creditor; accordingly, liabilities to banks equalling this amount were transferred to liabilities to non-banking clients. **Liabilities to the central bank** increased by EUR 1.1 million in 2013 on account of higher deferred interest, amounting to EUR 207.7 million.

Liabilities to non-banking clients stood at EUR 473 million, i.e. 12.5% of the structure of total liabilities at the end of 2013, up EUR 322.9 million mainly due to the above-mentioned change of creditor.

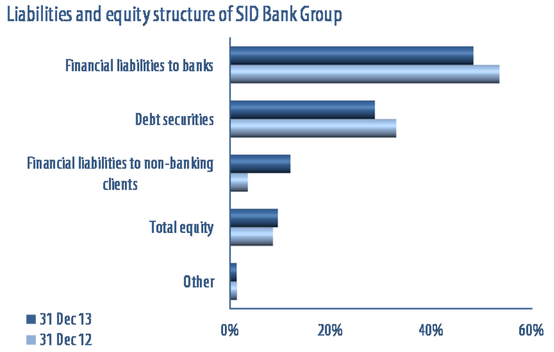
Liabilities from issued securities were down 34.4% in 2013, to reach 30% at the end of 2013. Debt securities stood at EUR 1,134.7 million at the end of 2013, down 19.3% or EUR 272 million on the end of 2012.

Total equity of the Bank increased by EUR 5.6 million or 1.6% in 2013, amounting to EUR 345.8 million at the end of 2013. Profit reserves were up EUR 4.9 million at the end of 2013, and revaluation surplus increased by EUR 0.7 million.

Other liabilities include:

- provisions in the amount of EUR 8.2 million, down EUR 6.5 million at the end of 2013 compared to the end of 2012;
- other liabilities in the total amount of EUR 2.6 million and consist of financial liabilities held for trading, derivatives held for hedging, corporate income tax liabilities and other financial and other liabilities.

Liabilities and Equity of the SID Bank Group



Liabilities and equity of the SID Bank Group are similar to liabilities and equity of SID Bank. Liabilities in the amount of EUR 3,565.6 million accounted for 90.5%, and total equity in the amount of EUR 374 million accounted for a 9.5% share in the liabilities and equity.

Borrowings and deposits from banks stood at EUR 1,698.6 million at the end of 2013, accounting for 43.1% of the Group's liabilities and equity. Liabilities to banks were down EUR 375.9 million compared to the end of 2012.

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

The Group's **liabilities to non-banking clients** accounted for a 12% share in liabilities and equity and were the same as those of SID Bank.

The Group's **liabilities from issued securities** were also the same as those of the Bank, with their share accounting for 28.8% in the structure as at the end of 2013.

Provisions in the amount of EUR 38.9 million were down EUR 5.6 million on the end of 2012. The largest proportion, i.e. EUR 30.5 million, related to liabilities from insurance contracts and deferred income from insurance commissions, followed by provisions for off-balance-sheet liabilities in the amount of EUR 8 million and provisions for liabilities to employees in the amount of EUR 0.5 million.

Other liabilities in the total amount of EUR 12.6 million comprised financial liabilities held for trading, derivatives held for hedging, corporate income tax liabilities, and other financial and other liabilities.

The SID Bank Group's **total equity** increased by 3% or EUR 10.8 million in 2013. Profit reserves were up EUR 6.8 million, revaluation surplus for available-for-sale financial assets increased by EUR 0.8 million, and the net profit for the year, including retained earnings, increased by EUR 3.2 million.

7.6 Important Events in 2013

In 2013, the most important business events and achievements of SID Bank in individual areas were:

Activities of the SID Bank:

- At the beginning of the year the Bank hosted for the third time the Hub of Knowledge on the topic "European and Slovenian Economy: Development or Disintegration?" The one day event gathered acknowledged Slovenian and foreign economists, corporate representatives, representatives of banks, economic associations, national institutions and media, to discuss and exchange knowledge, experience, opinions and views on current economic topics. SID Bank became a member of ELTI (European Association of Long-Term Investors) that was established in July of 2013. Members strive to encourage long-term investments for sustainable and sensible growth and new job creation.
- In September, the Government of the Republic of Slovenia approved key elements of the financial engineering measure, upon which the loan fund in the amount of EUR 500 million was set up. The fund provides financing of SME's working capital and new investments, as well as employment.
- In November, the Bank announced a new call obtaining the guarantee of the Republic of Slovenia for liabilities of private companies and cooperatives arising from loans hired at first-rate commercial and savings banks, intended for financing investments in development projects and/or working capital.
- Together with the other partner in the subsidiary Prvi faktor the Bank initiated negotiations with a new strategic investor to enter into the ownership of Prvi faktor, Ljubljana. A Mandate Letter was signed in which the parties confirmed to negotiate until final agreement is reached. Negotiations led to the signing of the shareholders' agreement, the partners agreed on sales and investment conditions, as well as future governance and performance of the company Prvi faktor, Ljubljana.

Financial markets:

- In March, SID Bank successfully issued the long-term bond SEDABI Float 03/28/16 in the nominal amount of EUR 200 million. The first issue in the nominal amount of EUR 150 million was increased by EUR 50 million because of great interest from investors.
- In June, because of a reduction in the refinancing risk in 2015, the Bank performed a partial early purchase of the bond SEDABI3 04/21/15 in the nominal value of EUR 300 million. By the end of the year also partial early repayments were made in the total amount of EUR 83.9 million. Because the bond was secured with interest swap, the Bank concluded the secured transaction and interest rate swap in the same nominal value.
- In September, the Bank issued a short-term bond SEDABI 3.34 09/09/14 in the nominal value of EUR 100 million.
- The Bank issued a long-term bond SEDABI 4.12 03/31/16 in the nominal amount of EUR 60 million in December.
- In December, the Bank signed a loan contract with the European Investment Bank in the amount of EUR 350 million for long-term financing of projects of SMEs and co-financing of investments for energy efficiency and renewable energy resources.

Supervision:

- In November 2013, the European Central Bank started supervision of 130 banks in 18 euro area members, among them also the three Slovenian banks: NLB, Nova KBM and SID Bank. The significant banks will undergo risk assessment evaluation, asset quality review (AQR) and the stress test. Thus the European Central Bank takes on new banking supervision tasks as part of a Single Supervisory Mechanism. The assessment will be carried out in collaboration with national competent authorities and independent third persons and should improve the quality of information on the position of banks and ensure implementation of necessary corrective measures.

Bank's Rating:

- Following the downgrade of the Slovenian government's rating, in May 2013, Moody's Investors Service downgraded the ratings of SID Bank from Baa2 to Ba1 with a negative outlook.

The Supervisory Board and its Committees:

- On 21 February 2013, two members of the Supervisory Board were relieved of duty, Mr Matej Runjak and Mr Robert Ličen (MSc). Ms Monika Pintar Mesarič and Mr Leo Knez (MSc) were appointed as new members of the Supervisory Board.
- On 5 March 2013, the incumbent member of the Audit Committee of the Supervisory Board Mr Robert Ličen (MSc) was replaced by Mr Leo Knez (MSc), and incumbent member of the Remuneration and HR Committee Mr Matej Runjak by Ms Monika Pintar Mesarič.
- On 6 September 2013, the member of the Supervisory Board Mr Milan Matos was relieved of duty and Mr Anton Rop (MSc) was appointed as the new member of the Supervisory Board.

FINANCIAL REPORT

Declaration by the Management Board on the Financial Statements of SID Bank and the SID Bank Group

On 24 February 2014 the Management Board hereby approves the financial statements of SID Bank and the SID Bank Group, and the annual report for the year ending 31 December 2013. The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted in the EU.

The Management Board believes that SID Bank and the Sid Bank Group have sufficient resources to operate as going concerns.

The Management's responsibilities are:
- To employ relevant accounting policies, and to ensure that they are consistently applied,
- To make use of reasonable and prudent accounting estimates and judgments,
- To ensure that the financial statements are compiled on a going-concern basis for SID Bank and the SID Bank Group.

The Management Board is responsible for maintaining accounting documents and records to disclose the financial position of SID Bank and the SID Bank Group with reasonable accuracy at any time. The Management Board is also responsible for ensuring that the financial statements have been compiled in accordance with the legislation and regulations of the Republic of Slovenia. The Management must do everything possible to safeguard the assets of SID Bank and the SID Bank Group, and must undertake the 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.

Uprava SID - Slovenske izvozne in razvojne banke, d.d., Ljubljana

Jožef Bradeško
član

mag. Sibil Svilan
predsednik

Independent Auditor's Report about the Financial Statements of SID Bank and the SID Bank Group

KPMG

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of SID – Slovenska izvozna in razvojna banka, d.d. which comprise the statement of financial position as at 31 December 2013, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SID – Slovenska izvozna in razvojna banka, d.d. as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

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

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

mag. Simona Korošec Lavrič	Boris Drobnič
Certified Auditor	*Partner*
Ljubljana, 31 March 2014	KPMG Slovenija, d.o.o. 4

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company SID – Slovenska izvozna in razvojna banka, d.d and its subsidiaries (SID Bank Group), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the SID Bank Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

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

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

mag. Simona Korošec Lavrič — Boris Drobnič

Certified Auditor — Partner

KPMG Slovenija, d.o.o.

Ljubljana, 31 March 2014

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

1 Financial Statements of SID Bank and the SID Bank Group

1.1 Income Statement

		SID Bank		SID Bank Group	
EUR thousands	Note	2013	2012	2013	2012
Interest income		117,832	156,562	126,299	166,736
Interest expenses		(65,288)	(93,420)	(69,978)	(99,662)
Net interest income	2.4.1	52,544	63,142	56,321	67,074
Dividend income	2.4.2	1,422	1,632	0	352
Fee and commission income		3,017	1,819	6,799	5,982
Fee and commission expenses		(626)	(706)	(1,093)	(1,333)
Net fee and commission income	2.4.3	2,391	1,113	5,706	4,649
Gains realised on financial assets and liabilities not measured at fair value through profit or loss	2.4.4	15,568	1,689	15,569	1,798
Net gain/loss on financial assets and liabilities held for trading		26	(11)	18	(19)
Gains on financial assets and liabilities measured at fair value through profit or loss	2.4.5	1,579	21,072	1,579	21,072
Changes in fair value in hedge accounting	2.4.6	1,053	2,648	1,053	2,648
Net foreign exchange gain/loss	2.4.7	(4)	(5)	(319)	836
Net gains/losses on derecognition of assets other than non-current assets held for sale		0	(1)	6	(42)
Other net operating gains	2.4.8	2,032	2,221	9,029	6,692
Administrative costs	2.4.9	(8,781)	(7,585)	(15,562)	(14,116)
Amortisation and depreciation	2.4.10	(589)	(575)	(1,023)	(1,009)
Provisioning	2.4.11	6,454	(10,095)	6,704	(8,721)
Impairments	2.4.12	(67,995)	(69,383)	(65,555)	(72,156)
Profit from ordinary operations		**5,700**	**5,862**	**13,526**	**9,058**
Corporate income tax on ordinary operations	2.4.13	(834)	(821)	(3,530)	(2,235)
Net profit for the financial year		**4,866**	**5,041**	**9,996**	**6,823**
Basic earnings per share	2.4.14	**1.57**	**1.62**	**3.22**	**2.20**
Diluted earnings per share		**1.57**	**1.62**	**3.22**	**2.20**

1.2 Statement of Comprehensive Income

		SID Bank		SID Bank Group	
EUR thousands	Note	2013	2012	2013	2012
Net profit for the financial year		**4,866**	**5,041**	**9,996**	**6,823**
Other comprehensive income, net of tax		**703**	**3,176**	**793**	**3,915**
Items that may be reclassified subsequently to profit or loss		**703**	**3,176**	**793**	**3,915**
Foreign currency translation		0	0	42	(177)
Translation gains/(losses) taken to equity*		0	0	42	(177)
Available-for-sale financial assets	2.5.2	877	3,895	931	4,855
Valuation gains taken to equity		1,431	4,220	1,486	4,517
Transferred to profit or loss		(554)	(325)	(555)	338
Income tax in connection with items that may be reclassified subsequently to profit or loss	2.5.7	(174)	(719)	(180)	(763)
Total comprehensive income for the financial year, net of tax		**5,569**	**8,217**	**10,789**	**10,738**

** Foreign exchange changes during consolidation.*

1.3 Statement of Financial Position

		SID Bank		SID Bank Group	
EUR thousands	Note	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Cash-in-hand and balances in accounts at central bank	2.5.1	177,416	408	177,417	409
Financial assets held for trading		0	1	0	1
Available-for-sale financial assets	2.5.2	344,433	309,755	370,129	333,854
Loans	2.5.3	3,216,262	3,680,998	3,315,041	3,798,186
- loans to banks		2,614,504	3,031,156	2,631,103	3,057,451
- loans to non-banking clients		601,136	649,294	682,212	738,831
- other financial assets		622	548	1,726	1,904
Derivatives used for hedging	2.5.4	36,095	78,003	36,095	78,003
Property, plant and equipment	2.5.5	3,324	3,664	6,813	7,396
Investment property		0	0	792	848
Intangible assets	2.5.5	677	491	1,273	1,611
Long-term interests in subsidiaries, associates and joint ventures	2.5.6	8,831	11,919	419	419
Corporate income tax assets	2.5.7	307	439	1,390	2,978
- tax assets		0	439	908	1,456
- deferred tax assets		307	0	482	1,522
Other assets	2.5.8	220	266	30,208	32,390
Non-current assets held for sale		0	2,718	0	2,718
TOTAL ASSETS		**3,787,565**	**4,088,662**	**3,939,577**	**4,258,813**
Financial liabilities to central bank	2.5.9	207,742	206,592	207,742	206,592
Financial liabilities held for trading		17	44	17	44
Financial liabilities measured at amortised cost	2.5.10	3,224,663	3,526,884	3,309,316	3,634,230
- deposits from banks		40,497	44,301	40,497	44,301
- deposits from non-banking clients		6	5	6	5
- borrowings from banks		1,574,979	1,924,619	1,658,142	2,030,232
- borrowings from non-banking clients		472,965	150,063	472,965	150,063
- debt securities		1,134,713	1,406,725	1,134,713	1,406,725
- other financial liabilities		1,503	1,171	2,993	2,904
Derivatives held for hedging		129	0	129	0
Provisions	2.5.11	8,246	14,713	38,947	44,587
Corporate income tax liabilities	2.5.7	785	28	1,014	229
- tax liabilities		785	0	1,014	201
- deferred tax liabilities		0	28	0	28
Other liabilities	2.5.12	190	177	8,448	9,956
TOTAL LIABILITIES		3,441,772	3,748,438	3,565,613	3,895,638
Share capital		300,000	300,000	300,000	300,000
Share premium account		1,139	1,139	1,139	1,139
Revaluation surplus		1,706	1,003	1,648	897
Profit reserves		41,961	37,012	64,208	57,434
Shares held in treasury		(1,324)	(1,324)	(1,324)	(1,324)
Retained earnings (including profit for the financial year)		2,311	2,394	8,293	5,029
TOTAL EQUITY	2.5.13	345,793	340,224	373,964	363,175
TOTAL EQUITY AND LIABILITIES		**3,787,565**	**4,088,662**	**3,939,577**	**4,258,813**

1.4 Statement of Changes in Equity

SID Bank

2013 EUR thousands	Share capital	Share premium account	Revaluation surplus	Profit reserves	Retained earnings (including net profit for the financial year)	Shares held in treasury	Total equity
OPENING BALANCE IN ACCOUNTING PERIOD (1 Jan 2013)	**300,000**	**1,139**	**1,003**	**37,012**	**2,394**	**(1,324)**	**340,224**
Comprehensive income for the financial year, net of tax	0	0	703	0	4,866	0	5,569
Distribution of net profit to profit reserves	0	0	0	4,949	(4,949)	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD (31 Dec 2013)	**300,000**	**1,139**	**1,706**	**41,961**	**2,311**	**(1,324)**	**345,793**
DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR					**2,311**		

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

SID Bank Group

2013 EUR thousands	Share capital	Share premium account	Revaluation surplus	Profit reserves	Retained earnings (including net profit for the financial year)	Shares held in treasury	Total equity
OPENING BALANCE IN ACCOUNTING PERIOD (1 Jan 2013)	**300,000**	**1,139**	**897**	**57,434**	**5,029**	**(1,324)**	**363,175**
Comprehensive income for the financial year, net of tax	0	0	793	0	9,996	0	10,789
Distribution of net profit to profit reserves	0	0	0	6,774	(6,774)	0	0
Other*	0	0	(42)	0	42	0	0
CLOSING BALANCE IN ACCOUNTING PERIOD (31 Dec 2013)	**300,000**	**1,139**	**1,648**	**64,208**	**8,293**	**(1,324)**	**373,964**

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

**Foreign exchange changes during consolidation.*

1.5 Statement of Cash Flows

		SID Bank		SID Bank Group	
EUR thousands	Note	2013	2012	2013	2012
A. CASH FLOWS FROM OPERATING ACTIVITIES					
a) Net profit before tax		**5,700**	**5,862**	**13,526**	**9,058**
Amortisation and depreciation	2.4.10	589	575	1,023	1,009
Impairments/(reversal of impairment) of available-for-sale financial assets	2.4.12	460	(73)	2,447	1,958
Impairments of loans	2.4.12	64,448	69,456	61,588	69,940
Impairments of property, plant and equipment, investment property, intangible assets and other assets	2.4.12	0	0	1,520	259
Impairments of investments in subsidiaries, associates and joint ventures	2.4.12	3,087	0	0	0
Net foreign exchange (gains)/losses	2.4.7	4	5	319	(836)
Net (gains)/losses on disposal of property, plant and equipment and investment property		0	1	(6)	42
Other (gains) from investing activities	2.4.2	(1,422)	(1,632)	0	(352)
Other adjustments in pre-tax profit or loss		(7,531)	7,458	(7,783)	6,083
Cash flows from operating activities before changes in operating assets and liabilities		65,335	81,652	72,634	87,161
b) Decrease in operating assets		**97,341**	**35,124**	**103,138**	**58,585**
Net decrease in financial assets held for trading		1	0	1	0
Net (increase) in available-for-sale financial assets		(31,490)	(94,189)	(37,013)	(87,996)
Net decrease in loans		107,190	134,995	117,364	152,378
Net (increase)/decrease in assets held for hedging		18,876	(2,947)	18,876	(2,947)
Net (increase) in non-current assets held for sale		2,718	(2,718)	2,718	(2,718)
Net (increase)/decrease in other assets		46	(17)	1,192	(132)
c) Increase/(decrease) in operating liabilities		**(274,353)**	**27,457**	**(293,120)**	**5,960**
Net increase in financial liabilities to central bank		1,150	156,578	1,150	156,578
Net (decrease) in financial liabilities held for trading		(1)	0	(1)	0
Net (decrease) in deposits and borrowings measured at amortised cost		(27,707)	(117,399)	(46,059)	(134,101)
Net (decrease) in issued debt securities measured at amortised cost		(247,796)	(11,742)	(247,796)	(11,742)
Net (decrease) in derivatives used for hedging		(2)	0	(2)	0
Net increase/(decrease) in other liabilities		3	20	(412)	(4,775)
d) Cash flows from operating activities (a+b+c)		**(111,677)**	**144,233**	**(117,348)**	**151,706**
e) (Paid)/refunded corporate income tax		**54**	**36**	**(1,157)**	**(1,625)**
f) Net cash flow from operating activities (d+e)		**(111,623)**	**144,269**	**(118,505)**	**150,081**
B. CASH FLOWS FROM INVESTING ACTIVITIES					
a) Inflows from investing activities		**1,422**	**1,632**	**7**	**1,252**
Proceeds from disposal of property, plant and equipment and investment property		0	0	7	900
Other inflows from investing activities	2.4.2	1,422	1,632	0	352
b) Outflows from investing activities		**(435)**	**(616)**	**(535)**	**(3,540)**
(Acquisitions of property, plant and equipment and investment property)		(159)	(248)	(230)	(2,884)
(Acquisitions of intangible assets)		(276)	(368)	(305)	(656)
c) Net cash from investing activities (a-b)		**987**	**1,016**	**(528)**	**(2,288)**
D. Effect of foreign exchange differences on cash and cash equivalents		(163)	4	(163)	4
E. Net increase in cash and cash equivalents (Af+Bc+Cb)		**(110,636)**	**145,285**	**(119,033)**	**147,793**
F. Opening balance of cash and cash equivalents	2.5.1	**317,641**	**172,352**	**341,968**	**194,171**
G. Closing balance of cash and cash equivalents (D+E+F)	2.5.1	**206,842**	**317,641**	**222,772**	**341,968**

Statement of cash flows of the SID Bank and SID Bank Group are drawn up using the indirect method.

As the starting point to prepare the cash flows for SID Bank and the SID Bank Group, we used the net profit or loss before tax.

Net cash flow from operating activities, which are calculated using the indirect method are determined by completing the net profit or loss before tax with the effects of changes in business claims and liabilities, effects of non-monetary items, such as amortisation, provisions, impairments, changes in the fair value in hedge accounting, foreign exchange changes and the effects of cash flows from investing activities. The SID Bank and the SID Bank Group also include among net cash flows in operating activities effects of changes from issued debt securities.

Cash flows from investing activities are determined according to the indirect method and include to income from investing activities income from sales of property and investment property, as well as received dividends and to expenses from investing activities expenses for purchases of property, investment property and intangible assets.

Cash flows from interests and dividends

	SID Bank		SID Bank Group	
EUR thousands	2013	2012	2013	2012
Cash flows from interest and dividends				
- Interest received	122,968	159,509	132,649	177,840
- Interest paid	(64,652)	(94,750)	(73,686)	(102,951)
- Dividends received	1,422	1,632	0	352
Total	59,738	66,391	58,963	75,241

2 Notes to the Financial Statements

Points 1.1 to 1.5 of the financial report present the income statement for the 2013 financial year, the statement of comprehensive income for the 2013 financial year, the statement of financial position as at 31 December 2013, the statement of changes in equity for the 2013 financial year and the statement of cash flows for the 2013 financial year for SID Bank (separate statements) and for the SID Bank Group (consolidated statements). Figures for the position as at 31 December 2012 and for the 2012 financial year are disclosed in the aforementioned financial statements for the purposes of comparison.

2.1 Basic Information

The SID Bank Group (hereinafter also: the Group) comprises SID - Slovenska izvozna in razvojna banka, d.d., Ljubljana (hereinafter: SID Bank or the Bank) as the controlling company, and subsidiaries, joint ventures and a joint foundation. A detailed presentation of the Group is given in point 2.5.6.

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

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

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

2.2 Statement of Compliance

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

2.3 Significant Accounting Policies

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

The adopted accounting policies were consistently applied in the two reporting periods.

2.3.1 Basis for Compiling the Financial Statements

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

The accounting policies may only be changed if:

- the change is mandatory under a standard or interpretation, or
- the change results in the financial statements presenting information on greater reliability or relevance.

2.3.2 Use of Estimates and Judgments and Material Uncertainty

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

A new round of pan-European stress tests for banks, including SID Bank, is scheduled for 2014. At the time of publishing this Annual Report, it is yet impossible to anticipate the results of the tests, which should be known in November 2014 and which could impose new capital requirements.

2.3.3 Consolidation

Undertakings included in consolidation

The following are included in the consolidated financial statements:

- full consolidation: the controlling company SID Bank, and the subsidiary SID - Prva kreditna zavarovalnica d.d., Ljubljana, and
- proportionate consolidation: the Prvi faktor Group (joint venture).

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

Undertakings excluded from consolidation

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

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

2.3.4 Functional and Presentation Currency

The functional and presentation currency of SID Bank is euro.

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

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

2.3.5 Translation of Transactions and Items in Foreign Currency

All transactions in foreign currency are translated to the functional currency on the transaction date. Foreign exchange differences are recognised in profit or loss as foreign exchange gains/losses.

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

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

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

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

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

2.3.6 Cash and Cash Equivalents

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

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

2.3.7 Interest Income and Expenses

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

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

Accrued interest on impaired parts of loans is excluded from revenue by the Bank, and is only recognised if and when payment occurs.

Interest income from available-for-sale financial assets is calculated on the basis of yield to maturity, based on the calculated amortised cost using the effective interest rate method.

2.3.8 Dividend Income

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

2.3.9 Fee and Commission Income

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

2.3.10 Other Net Operating Gains/Losses

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

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

2.3.11 Financial Instruments

Classification

Financial Assets

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

- loans and receivables are financial assets with fixed or determinable payments not traded on an active market;
- financial assets held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity;
- available-for-sale financial assets are assets not purchased for the purpose of trading. The item includes equities and debt securities. Debt securities are classified in this category for the purpose of being held indefinitely, having been purchased for the management of current liquidity;
- financial instruments at fair value through profit or loss, which are further divided into financial assets held for trading, derivatives held for hedging and other financial assets at fair value through profit or loss. The Group classifies derivatives not used to hedge against risk as financial assets held for trading. Derivatives held for hedging primarily comprise interest rate swaps, and serve to hedge against the interest rate risk that the Bank faces in its daily operations on the financial markets.

Financial Liabilities

The Group classifies financial liabilities at initial recognition with regard to the purpose of acquisition, the time held in possession and the type of financial instrument.

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

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

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

Measurement, Recognition and Derecognition

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

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

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

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

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

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

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

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

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

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

Principles Used in Valuation at Fair Value

The fair value of financial instruments recognized according to fair value, which are traded on an observed market, is based on the declared market price on the observed date. When prices for identical instruments or liabilities cannot be measured on the market, the fair value is determined by using the valuation technique.

With financial instruments, which are recognized and measured at amortised cost, the fair value is determined by the model, which calculates the present net value of cash flows by using the interest rates, which apply in new contracts for identical products.

Valuation methods and assumptions are additionally explained in note 3.7. The noted explanation also describes and discloses the hierarchy of fair value.

Gains and Losses

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

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

Impairments of Financial Assets

Loans and Receivables

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

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

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

The estimated loss related to credit risk is presented in detail in Note 3.1. to the financial statements.

Impairments of Loans and Guarantees

Financial assets deriving from loans and guarantees are allocated to impairment on an individual or collective basis. On-balance-sheet and off-balance-sheet items that are subjected to impairment on an individual basis comprise:

– individually significant items where the total exposure to a single client exceeds EUR 200 thousand for classification purposes,
– financial assets that the Bank judges should be assessed on an individual basis.

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

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

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

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

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

Impairments of factoring receivables

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

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

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

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

Restructured Loans

Restructured loans are formed as a result of the debtor's inability to repay the loan under the originally agreed conditions, either by changing the conditions of the original contract (by drawing up an annex thereto) or by drawing up a new contract in which the parties agree on a partial or full repayment of the original debt.

All differences arising in the restructuring are recognised in profit or loss.

Available-for-Sale Financial Assets

Equity instruments are impaired if there is objective evidence of impairment as a result of a loss event or events occurring after initial recognition. Objective evidence of impairment is assumed to have arisen when the fair value declines by more than 40% from the original historical cost, or when the fair value has been lower than the original cost for more than nine months. When none of the impairment assessment criteria has been met, but in the opinion of the Bank's Credit Committee there is sufficient information providing solid, objective evidence of the impairment of equity and debt instruments, impairment is applied after individual assessment of the financial asset in question.

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

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

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

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

2.3.12 Derivatives Used for Hedging

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

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

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

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

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

2.3.13 Property, Plant and Equipment and Intangible Assets

Property, Plant and Equipment

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

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

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

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

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

	SID Bank and the SID Bank Group (%)
Buildings and parts of buildings	2 - 5
Computer equipment	25 - 50
Cars	12.5 - 20
Furniture	11 - 20
Other equipment	20 - 25
Small items	20 - 100

Property, plant and equipment are impaired when their carrying amount exceeds the recoverable amount. The impairment loss is recognised as an expense in the income statement. At the end of each financial year, on the reporting date, it is assessed whether there are any indications of impairment.

If such indications exist, the recoverable amount of the asset is estimated, as follows:

- the fair value less cost to sell, or
- the value in use, whichever is the larger.

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

Intangible Assets with Definite Useful Life

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

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

- the fair value less cost to sell, or
- the value in use, whichever is the larger.

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

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

Goodwill

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

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

2.3.14 Investment Property

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

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

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

2.3.15 Long-term Interests in Subsidiaries and Joint Ventures

Interests in subsidiaries and joint ventures are recognised in separate financial statements at cost (using the cost method), and dividends are recognised in profit or loss when the right to receive payment is established.

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

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

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

2.3.16 Other Assets

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

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

2.3.17 Non-Current Assets Held for Sale

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

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

2.3.18 Provisions for Liabilities and Costs

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

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

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

2.3.19 Other Liabilities

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

2.3.20 Equity

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

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

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

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

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

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

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

2.3.21 Contingent Liabilities and Commitments

Financial and service guarantees and unused approved loans and credit lines are disclosed under commitments.

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

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

2.3.22 Operations on Behalf of and for the Account of the Republic of Slovenia

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

2.3.23 Taxes

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

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

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

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

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

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

2.3.24 Employee Benefits

Employee benefits include retirement benefits and jubilee benefits.

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

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

2.3.25 Calculation of Net Earnings per Share

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

2.3.26 Segment Reporting

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

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

2.3.27 New Standards and Interpretations in the Reporting Period and Issued/Approved Standards and Interpretations Not Yet Effective and Applied

The following standards became effective and were applied by the Group in 2013:

- Amendment to IAS 1 Presentation of Financial Statements (effective for annual accounting periods beginning on or after 1 July 2002); the financial statements have been prepared in accordance with the amended standard; there is no quantitative impact on the financial statements.

- Amendment to IAS 19 Employee Benefits (effective for periods beginning on 1 January 2013); the amendment has no significant impact on the Group's financial statements.

- Amendment to IFRS 7 Offsetting Financial Assets and Financial Liabilities (effective for annual accounting periods beginning on or after 1 January 2013); the amendment has no significant impact on the Group's financial statements.

- IFRS 13 Fair Value Measurement (effective for periods beginning on 1 January 2013), the standard has no significant impact on the Group's financial statements.

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

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

- IFRS 11 Joint Arrangements superseding IAS 31 Interests in Joint Ventures (effective for annual accounting periods beginning on 1 January 2014); the standard will affect the presentation and disclosures of financial statement of the Group. The effects have not been estimated by the Group yet.

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

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

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

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

- Amendment to IFRS 10, IFRS 12 and IFRS 27 – Investment Entities; investment entities measure investments in associates and jointly controlled entities at fair value through profit or loss, rather than consolidate them (effective for periods starting on or after 1 January 2014); the Group envisages that the amendment will have no significant impact on the financial statements.

- Amendment to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets (effective for annual accounting periods beginning on or after 1 January 2014); the Group envisages that the amendment will have no significant impact on the financial statements.

- Amendment to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting; enables the continuation of hedge accounting if a hedging derivative is novated to the central counterparty as a consequence of law or regulations, or the introduction of laws or regulations (effective for annual accounting periods beginning on or after 1 January 2014); the Group envisages that the amendment will have no significant impact on the financial statements.

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

2.4 Notes to the Income Statement

2.4.1 Net Interest Income

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Interest income				
Loans and deposits	84,532	120,552	92,545	130,150
Derivatives used for hedging	24,268	28,462	24,268	28,462
Available-for-sale financial assets	8,893	7,497	9,347	8,075
Financial assets held for trading; other	139	50	139	50
Total	117,832	156,562	126,299	166,737
Interest expenses				
Issued securities	(44,191)	(45,095)	(44,191)	(45,095)
Loans and deposits	(10,928)	(35,537)	(15,618)	(41,779)
Derivatives used for hedging	(3,281)	(12,696)	(3,281)	(12,696)
Financial liabilities held for trading; other	(6,888)	(92)	(6,888)	(92)
Total	(65,288)	(93,420)	(69,978)	(99,662)
Net interest income	**52,544**	**63,142**	**56,321**	**67,075**

In accordance with the note given in point 2.3.7 the interest referring to impaired loans, is excluded from income. The amount of accrued and excluded interest income as at 31 December 2013 is EUR 3.8 million (31 December 2012: EUR 2.4 million).

2.4.2 Dividend Income

A dividend in the amount of EUR 1,422 thousand was paid to SID Bank by the subsidiary SID – Prva kreditna zavarovalnica d.d.

2.4.3 Net Fee and Commission Income

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Fee and commission income				
Fees and commissions from loan transactions	2,771	1,596	2,729	1,526
Fees and commissions from factoring transactions	0	0	3,824	4,204
Fees and commissions from guarantees granted	246	223	246	252
Total	3,017	1,819	6,799	5,981
Fee and commission expenses				
Fees and commissions from loan transactions	(499)	(588)	(713)	(895)
Other fees and commissions (stock-exchange transactions, other)	(126)	(118)	(379)	(439)
Total	(626)	(706)	(1,093)	(1,334)
Net fee and commission income	**2,391**	**1,113**	**5,706**	**4,648**

2.4.4 Gains/Losses Realised on Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Gains				
Financial liabilities measured at amortised cost	15,201	1,379	15,201	1,379
Available-for-sale financial assets	578	329	579	438
Total	15,778	1,708	15,779	1,817
Losses				
Loans	(186)	0	(186)	0
Available-for-sale financial assets	(23)	(4)	(23)	(4)
Other financial assets	(1)	0	(1)	0
Financial liabilities measured at amortised cost	0	(15)	0	(15)
Total	(210)	(19)	(210)	(19)
Net gains	**15,568**	**1,689**	**15,569**	**1,798**

A majority of realised gains are a result of the prepayment of the SEDABI3 04/21/15 bond. Details are provided in point 2.5.10.

2.4.5 Gains/Losses on Financial Assets and Liabilities Measured at Fair Value Through Profit or Loss

	SID Bank and the SID Bank Group	
	2013	2012
Gains	2,044	21,072
Losses	(465)	0
Gains on financial assets and liabilities measured at fair value through profit or loss	**1,579**	**21,072**

The above-mentioned gains and losses result from both Loan Funds, which SID Bank formed with the Ministry of Economic Development and Technology (hereinafter: MEDT). On the basis of contracts, the funding provided by the MEDT is first used to cover the loss, and revaluation income or expenses are recognised in the amount equal to the result of an individual Loan Fund in 2013, and the liability to the MEDT is adjusted in the same amount.

Gains decreased in 2013 as the negative result generated by funds was significantly below that from 2012. Due to a larger volume of granted loans in 2012, impairments and provisioning in the amount of EUR 21,246 thousand was formed, affecting the negative result of the fund.

2.4.6 Changes in Fair Value in Hedge Accounting

	SID Bank and the SID Bank Group	
	2013	2012
Net gains/losses on derivatives used for hedging	(23,163)	16,209
Net gains/losses on hedged items (bonds, loan)	24,216	(13,561)
Total	**1,053**	**2,648**

Gains on the valuation of derivatives and hedged items amounted to EUR 1,053 thousand in 2013; taking account of the net interest income on derivatives used for hedging in the amount of EUR 20,987 thousand, a positive effect of EUR 22,040 thousand was realised. Interest is presented in table in point 2.4.1.

2.4.7 Net foreign exchange gains/losses

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Foreign exchange gains	6,618	5,194	10,989	13,987
Foreign exchange losses	(6,622)	(5,200)	(11,308)	(13,151)
Net gains/losses	**(4)**	**(5)**	**(319)**	**836**

2.4.8 Other Net Operating Gains/Losses

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Gains				
Income from activities under Republic of Slovenia's authorisation	2,179	2,267	2,179	2,267
Insurance premium income	0	0	19,361	20,220
Reinsurance commissions income	0	0	2,891	2,209
Reinsurance share in compensation, recourse and bonuses	0	0	4,595	5,234
Recourse income	0	0	5,649	3,258
Other operating income	154	140	885	1,079
Total	2,333	2,406	35,560	34,266
Losses				
Reinsurance premium expenses	0	0	(11,841)	(12,526)
Expenses for gross claims	0	0	(11,966)	(13,023)
Reinsurance share in claims, recourse and bonuses	0	0	0	0
Other operating expenses	(301)	(185)	(2,725)	(2,026)
Total	(301)	(185)	(26,532)	(27,575)
Net operating gains	**2,032**	**2,221**	**9,028**	**6,691**

2.4.9 Administrative Costs

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Personnel expenses	(6,181)	(5,485)	(10,947)	(10,075)
- costs of gross wages	(4,687)	(4,083)	(8,209)	(7,476)
- pension insurance costs	(415)	(362)	(603)	(544)
- social security costs	(341)	(296)	(836)	(786)
- payroll taxes	0	0	(9)	(9)
- other costs	(738)	(744)	(1,290)	(1,262)
General and administrative costs	(2,600)	(2,100)	(4,613)	(4,040)
- material costs	(183)	(176)	(321)	(334)
- costs of services	(2,417)	(1,924)	(4,293)	(3,705)
Total	**(8,781)**	**(7,585)**	**(15,561)**	**(14,115)**

2.4.10 Amortisation and Depreciation

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Depreciation of property, plant and equipment	(499)	(476)	(868)	(822)
Amortisation of intangible assets	(90)	(99)	(155)	(187)
Total	**(589)**	**(575)**	**(1,023)**	**(1,009)**

2.4.11 Provisions

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Provisions for off-balance-sheet liabilities	6,503	(10,078)	6,503	(10,078)
Provisions for liabilities from insurance contracts	0	0	267	1,379
Other provisions	(49)	(17)	(66)	(22)
Total	**6,454**	**(10,095)**	**6,704**	**(8,721)**

In 2013 SID Bank realised EUR 6.5 million of income from the reversal of provisions for off-balance-sheet liabilities since the off-balance-sheet liabilities decreased almost by a half in 2013 compared with the end of 2012. The balances of off-balance-sheet liabilities for which provisions are formed are presented in the table in point 2.6.1.

2.4.12 Impairments

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Impairments of loans and receivables measured at amortised cost	(64,447)	(69,456)	(61,588)	(69,940)
Impairments of available-for-sale financial assets	(460)	73	(2,447)	(1,958)
Impairments of other assets	(3,087)	0	(1,520)	(259)
Total	**(67,994)**	**(69,383)**	**(65,555)**	**(72,156)**

In 2013 impairments were formed in the amount of EUR 68 million, of which EUR 64.5 million for loans granted and receivables measured at amortised cost, which is primarily a consequence of continued downturn in the economic situation and poor payment discipline.

Impairments of loans to companies in the Prvi faktor Group and the impairment of investment in Prvi faktor Ljubljana are excluded from the impairments of the SID Bank Group.

2.4.13 Corporate Income Tax on Ordinary Operations

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Income tax	(1,344)	(588)	(2,698)	(2,015)
Deferred taxes	510	(233)	(832)	(220)
Total	**(834)**	**(821)**	**(3,530)**	**(2,235)**

The tax rate in Slovenia stood at 17% in 2013 (down from 18% in 2012). In 2013 and 2012, the tax rate in Croatia stood at 20%, at 10% in Bosnia and Herzegovina, and at 15% in Serbia (2012: 10%).

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

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

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Profit	5,700	5,862	13,527	9,058
Income tax (at rates applicable in relevant countries)	(969)	(1,055)	(1,597)	(1,842)
Income deducted from taxable base	319	352	496	884
Income added to taxable base	(5)	(4)	2	18
Non-tax-deductible expenses	(756)	(116)	(2,057)	(3,227)
Tax-deductible expenses	16	175	375	2,012
Increase in taxable base	(13)	(15)	(13)	(15)
Tax allowances	64	75	96	157
Tax	**(1,344)**	**(588)**	**(2,698)**	**(2,015)**
Effective tax rate (%)	24	10	20	22

2.4.14 Net Earnings per Share

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Number of ordinary registered no-par-value shares	3,121,741	3,121,741	3,121,741	3,121,741
Own shares held in treasury	18,445	18,445	18,445	18,445
Net profit in the period (EUR thousands)	4,865	5,041	9,996	6,823
Net earnings per share (EUR)	1.57	1.62	3.22	2.20

2.5 Notes to the Statement of Financial Position

2.5.1 Cash and Cash Equivalents

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

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Settlement account	5,915	408	5,915	408
Cash-in-hand	0	0	1	1
Overnight placements with central bank	171,501	0	171,501	0
Total	177,416	408	177,417	409

Cash equivalents

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Bank deposits	197,897	314,160	209,929	331,020
Securities	2,988	3,014	2,988	3,014
Cash-in-hand and balance in settlement account at central bank	5,915	408	5,916	409
Cash in business accounts at banks	42	59	3,939	7,524
Total	206,842	317,641	222,772	341,967

2.5.2 Available-for-Sale Financial Assets

Itemisation by type of available-for-sale financial asset

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Bonds	250,698	227,661	271,206	243,073
Treasury bills of the Republic of Slovenia	88,531	73,409	88,531	74,893
Deposit certificates	3,029	8,550	3,029	8,550
Shares and participating interests at fair value	2,175	135	7,363	7,337
Total	344,433	309,755	370,129	333,853
Quoted on stock exchange	337,222	298,453	362,917	322,550
Not quoted on stock exchange	7,211	11,302	7,212	11,303
Total	344,433	309,755	370,129	333,853

Change in available-for-sale financial assets

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Balance as at 1 Jan	309,755	212,240	333,854	243,647
Recognition of new financial assets	204,621	220,177	210,963	222,586
Interest accruing	8,893	7,497	9,347	8,074
Interest paid	(7,043)	(7,063)	(7,618)	(7,821)
Net revaluation through equity	878	3,895	932	4,083
Net foreign exchange differences	(25)	(67)	(52)	(67)
Derecognition of financial assets	(172,186)	(126,996)	(174,850)	(134,572)
Impairments through profit or loss	(460)	72	(2,447)	(2,077)
Balance as at 31 Dec	344,433	309,755	370,129	333,854

Recognition entails the purchase of financial assets and reclassifications to available-for-sale assets, while derecognition is effected upon maturity or sale.

2.5.3 Loans

Loans to banks

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Loans	2,167,404	2,730,309	2,167,404	2,730,309
Deposits	457,712	337,982	474,345	364,316
Gross exposure	2,625,116	3,068,291	2,641,749	3,094,625
Adjustments to loans and deposits	(10,611)	(37,135)	(10,645)	(37,173)
Net exposure	2,614,505	3,031,156	2,631,104	3,057,451

Change in adjustments to loans to banks

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Balance as at 1 Jan	37,136	12,465	37,174	12,475
Impairments created	48,315	43,487	48,315	43,515
Reversal of impairments	(74,839)	(18,816)	(74,843)	(18,816)
Balance as at 31 Dec	10,611	37,136	10,646	37,174

Loans to non-banking clients

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Loans	815,613	782,509	786,043	756,983
Receivables from guarantees granted	3,684	10,075	3,684	10,075
Receivables from factoring transactions	0	0	124,334	132,078
Gross exposure	819,297	792,584	914,061	899,135
Adjustments	(218,162)	(143,290)	(231,849)	(160,304)
Net exposure	601,135	649,294	682,212	738,831

Change in adjustments to loans to non-banking clients

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Balance as at 1 Jan	143,290	103,270	160,305	119,653
Impairments created	113,071	62,762	110,973	63,696
Reversal of impairments	(38,199)	(22,742)	(39,429)	(23,044)
Balance as at 31 Dec	218,162	143,290	231,849	160,305

Other financial assets

As at 31 December 2013 the gross exposure for other financial assets amounted to EUR 1,002 thousand at SID Bank (31 December 2012: EUR 580 thousand) and EUR 2,110 thousand at the SID Bank Group (31 December 2012: EUR 1,948 thousand). As at 31 December 2013, impairments for other financial assets stood at EUR 380 thousand at SID Bank (31 December 2012: EUR 32 thousand) and EUR 384 thousand at the SID Bank Group (31 December 2012: EUR 43 thousand).

2.5.4 Derivatives Used for Hedging

	SID Bank and SID Bank Group	
	31 Dec 2013	31 Dec 2012
Fair value	24,576	60,405
Net interest receivables	11,519	17,598
Total	36,095	78,003

The Bank hedged the fair value of issued bonds and a borrowing in the total amount of EUR 760 million.

2.5.5 Property, Plant and Equipment and Intangible Assets

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

2013	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Intangible assets (software)
Original cost					
Balance as at 1 Jan 2013	6,721	800	823	8,344	1,509
Increase/decrease	83	(42)	4	45	276
Balance as at 31 Dec 2013	6,804	758	827	8,389	1,785
Accumulated amortisation/depreciation amount					
Balance as at 1 Jan 2013	(3,432)	(666)	(582)	(4,680)	(1,018)
Amortisation/depreciation	(316)	(122)	(61)	(499)	(90)
Decrease	0	104	10	114	0
Balance as at 31 Dec 2013	(3,748)	(684)	(633)	(5,065)	(1,108)
Carrying amount as at 31 Dec 2013	3,056	74	194	3,324	677

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

Major acquisitions in 2013 included investments in the construction of a data storage, the project of paperless transactions, and the purchase of computer equipment.

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

2013	Land and buildings	Computers	Other equipment	Total property, plant and equipment	Goodwill	Intangible assets	Total intangible assets
Original cost							
Balance as at 1 Jan 2013	9,817	1,605	1,777	13,199	488	2,639	3,127
Increase/decrease	113	19	(12)	119	0	302	302
Balance as at 31 Dec 2013	9,930	1,624	1,765	13,318	488	2,941	3,429
Accumulated amortisation/depreciation amount							
Balance as at 1 Jan 2013	(3,590)	(1,143)	(1,070)	(5,803)	0	(1,519)	(1,519)
Amortisation/depreciation	(438)	(277)	(154)	(868)	0	(155)	(155)
Decrease	0	119	47	166	0	5	5
Impairment	0	0	0	0	(488)	0	(488)
Balance as at 31 Dec 2013	(4,028)	(1,301)	(1,177)	(6,505)	(488)	(1,670)	(2,158)
Carrying amount as at 31 Dec 2013	5,902	323	588	6,813	0	1,271	1,271

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

2.5.6 Long-Term Interests in Subsidiaries and Joint Ventures

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Investment in SID - PKZ Ljubljana	8,413	8,413	0	0
Investment in Pro Kolekt, Ljubljana	419	419	419	419
Investment in Prvi faktor, Ljubljana	0	3,087	0	0
Total	**8,832**	**11,919**	**419**	**419**

In 2013, SID Bank made a 100% impaired of the investment in Prvi faktor.

Data about Subsidiaries

	SID Bank holding in equity (%)	Voting rights (%)	Nominal amount of participating interests	Equity	Net profit
31 Dec 2013					
SID - PKZ	100	100	8,413	25,410	2,727
Pro Kolekt Group	100	100	419	226	(19)
31 Dec 2012					
SID - PKZ	100	100	8,413	24,058	2,689
Pro Kolekt Group	100	100	419	272	(22)

Data about Joint Ventures

	Voting rights (%)	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Net profit	Total income
31 Dec 2013								
Prvi faktor Group	50	238,106	2,995	261,065	337	(20,301)	(29,107)	27,394
31 Dec 2012								
Prvi faktor Group	50	310,002	5,036	212,571	93,745	8,722	1,090	32,790

2.5.7 Corporate Income Tax Assets and Liabilities

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Current tax assets	0	439	908	1,456
Deferred tax assets	307	0	482	1,523
Total tax assets	307	439	1,390	2,979
Current tax liabilities	785	0	1,014	201
Deferred tax liabilities	0	28	0	28
Total tax liabilities	785	28	1,014	229

Deferred taxes

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Deferred tax assets				
-expenses from impairment of capital investments	525	0	525	0
- revaluation expenses from impairment of available-for-sale financial assets	231	173	267	329
- provisions for pensions and jubilee benefits	32	29	59	47
- valuation of available-for-sale financial assets	2	0	22	18
- value adjustments to receivables	0	0	73	1.302
- accruals and deferrals	0	0	21	28
Total	790	202	966	1.725
Deferred tax liabilities				
- valuation of available-for-sale financial assets	483	175	483	175
- reversal of impairments of available-for-sale financial assets	0	55	0	55
Total	483	230	483	230
Included in profit or loss	510	(233)	(832)	(220)
Included in equity	(174)	(719)	(180)	(763)

2.5.8 Other Assets

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Other assets	220	266	1,351	677
Reinsurer's assets	0	0	18,027	16,987
Receivables from insurance operations	0	0	18,503	17,539
Gross exposure	220	266	37,881	35,203
Impairments of insurance operations	0	0	(7,674)	(2,813)
Net exposure	220	266	30,207	32,391

2.5.9 Financial Liabilities to Central Bank

	SID Bank and SID Bank Group	
	31 Dec 2013	31 Dec 2012
Debts from other long-term loans from primary issue	207,742	206,592
Total	207,742	206,592

2.5.10 Financial Liabilities Measured at Amortised Cost

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Borrowings from banks	1,615,477	1,968,920	1,698,640	2,074,533
Borrowings	1,574,980	1,924,619	1,658,143	2,030,232
Deposits	40,497	44,301	40,497	44,301
Borrowings from non-banking clients	472,971	150,068	472,971	150,068
Borrowings	472,965	150,063	472,965	150,063
Deposits	6	5	6	5
Debt securities	1,134,713	1,406,725	1,134,713	1,406,725
Other financial liabilities	1,503	1,171	2,992	2,904
Total	3,224,664	3,526,884	3,309,316	3,634,230

In 2013, SID Bank issued three bonds on international capital markets in the total nominal amount of EUR 360 million, namely a bond with the ticker symbol of SEDABI Float 03/28/16 in the nominal amount of EUR 200 million, SEDABI 3.34 09/09/14 in the nominal amount of EUR 100 million, and SEDABI 4.12 03/31/16 in the nominal amount of EUR 60 million.

In 2013, the bond with the ticker symbol SEDABI 3.42 09/27/13 in the nominal amount of EUR 210 million matured. With the aim of early debt repayment and in order to decrease the refinancing risk in 2015 SID Bank continued the process of prepayments of the bonds with the ticker symbol of SEDABI3 04/21/15 in 2013. In several transactions, EUR 383,9 million of the bond was prepaid. At the same time, interest rate swaps were cancelled in the same nominal amount. The prepayments resulted in a gain of EUR 15.2 million (see point 2.4.4).

Increased borrowings from non-banking clients and decreased borrowings from banks are primarily a result of the status change in one of the lenders; in 2013 a borrowing in the amount of EUR 313 million from a foreign bank was transferred to a new creditor who is a non-banking client.

2.5.11 Provisions

Change in provisions at SID Bank

	Provisions for off-balance-sheet liabilities	Provisions for pensions and jubilee benefits	Total
Balance as at 1 Jan 2013	14,487	226	14,713
Additions	7,510	60	7,570
Reversals	(14,015)	(21)	(14,036)
Balance as at 31 Dec 2013	7,982	265	8,247
Balance as at 1 Jan 2012	4,408	213	4,621
Additions	18,352	34	18,386
Reversals	(8,274)	(20)	(8,294)
Balance as at 31 Dec 2012	14,487	226	14,713

Change in provisions of SID Bank Group

	Provisions for off-balance-sheet liabilities	Provisions for pensions and jubilee benefits	Change in liabilities from insurance contracts	Change in deferred income from reinsurance commissions	Total
Balance as at 1 Jan 2013	14,486	398	28,861	844	44,589
Additions	7,510	141	18,424	0	26,075
Reversals	(14,015)	(45)	(17,224)	(428)	(31,713)
Foreign exchange differences	0	(3)	0	0	(3)
Balance as at 31 Dec 2013	7,981	491	30,061	416	38,949
Balance as at 1 Jan 2012	4,408	387	30,485	1,349	36,630
Additions	18,352	42	20,965	422	39,781
Reversals	(8,274)	(31)	(22,589)	(927)	(31,821)
Foreign exchange differences	0	(2)	0	0	(2)
Balance as at 31 Dec 2012	14,486	398	28,861	844	44,588

Provisions for off-balance-sheet liabilities in the amount of EUR 7,982 thousand were formed for potential losses from issued guarantees and approved undisbursed loans and credit lines.

SID Bank formed provisions for pensions and jubilee benefits as at 31 December 2013 based on its own calculation. The underlying assumptions for the calculation are disclosed in Note 2.3.24.

Liabilities from insurance contracts stand for the gross insurance technical provisions including the reinsurers' share.

2.5.12 Other liabilities

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Accruals and deferred income	105	125	8,109	9,755
VAT liabilities	86	52	231	165
Other liabilities	0	0	108	36
Total	191	177	8,448	9,956

2.5.13 Total Equity

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Share capital	300,000	300,000	300,000	300,000
Profit reserves	41,961	37,012	64,209	57,434
- statutory reserves	*9,184*	*8,941*	*10,070*	*9,826*
- reserves for treasury shares	*1,324*	*1,324*	*1,324*	*1,324*
- reserves under the articles of association	*19,391*	*17,080*	*23,597*	*21,286*
- other profit reserves	*12,061*	*9,667*	*25,579*	*22,305*
- credit risk equalisation reserve	*0*	*0*	*3,639*	*2,692*
Share premium account	1,139	1,139	1,139	1,139
Revaluation surplus in connection with available-for-sale financial assets	1,706	1,003	1,649	898
Repurchased treasury shares	(1,324)	(1,324)	(1,324)	(1,324)
Net profit for the financial year (including retained earnings)	2,311	2,395	8,292	5,029
Total	**345,793**	**340,224**	**373,964**	**363,175**

The share capital of SID Bank and the SID Bank Group is equal as at the end of 2013 and 2012, i.e. EUR 300,000 thousand.

There were no changes in shares held in treasury 2013. SID Bank owned 18,445 of SIDR shares as at 31 Dec 2013, totalling EUR 1,324 thousand.

Following the General Meeting's resolution, the SID Bank's undistributed profit from 2012 in the amount of EUR 2,394 thousand was transferred to other profit reserves.

Changes are presented in the statement of changes in equity.

2.5.14 Distributable Profit

	SID Bank	
	2013	2012
Net profit for the financial year	4,866	5,041
Portion of net profit allocated to statutory reserves	(243)	(252)
Portion of net profit allocated to reserves under the articles of association	(2,311)	(2,394)
Distributable profit	**2,311**	**2,395**

In accordance with the articles of association, the Management Board formed statutory reserves in the amount of EUR 243 thousand and reserves under the articles of association in the amount of EUR 2,311 thousand from the SID Bank's net profit for 2013, which totalled EUR 4,866 thousand.

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

2.6 Other Notes to the Financial Statements

2.6.1 Contingent and Potential Liabilities

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

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Guarantees	25,936	28,280	26,388	28,795
Liabilities from approved unused loans	28,927	72,553	28,927	72,553
Total assumed commitments	54,863	100,833	55,315	101,348
Provisions for off-balance-sheet liabilities	(7,981)	(14,487)	(7,981)	(14,487)

SID Bank and the SID Bank Group disclose the value of unused loans approved for domestic banks and corporates as at 31 December 2013 in the item of assumed commitments. The amount of approved corporate loans that had not yet been disbursed as at 31 December 2013 totalled EUR 28,829 thousand, and EUR 98 thousand comprised loans approved to banks.

The amount of approved corporate loans that had not yet been used as at 31 December 2012 totalled EUR 71,008 thousand, unused bank loans accounting for the difference of EUR 1,545 thousand.

Liabilities from unused loans decreased primarily as a result of the used method of disbursement. In 2012 more loans with multiple and longer period of disbursement were approved, hence the relatively high balance of unused loans as at the end of 2012. These loans were disbursed in 2013, and new loans were approved with shorter disbursement periods, hence a lower balance as at the end of 2013.

Contractual value of derivatives

	SID Bank and SID Bank Group	
	31 Dec 2013	31 Dec 2012
Interest rate swaps	760,159	1,084,698

The contractual value of derivatives that meet the criteria for hedge accounting amounts to EUR 759,140 thousand. The difference in the amount of EUR 1,019 thousand comprises market interest rate swaps.

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

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

2.6.2 Related Party Disclosures

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

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

Significant relations with subsidiaries and joint ventures

	2013			2012		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Receivables						
- loans	55	94,590	94,645	48	94,617	94,665
- other financial assets	13	0	13	11	0	11
Gross exposure	68	94,590	94,658	59	94,617	94,676
Value adjustments	(4)	(21,252)	(21,256)	(2)	(5,544)	(5,546)
Net exposure	64	73,338	73,402	57	89,073	89,130

	2013			2012		
	Subsidiaries	Joint ventures	Total	Subsidiaries	Joint ventures	Total
Interest income	1	4,203	4,204	0	4,923	4,923
Dividend income	1,422	0	1,422	1,632	0	1,632
Fee and commission income	0	86	86	0	140	140
Income from rents and other services	120	0	120	105	0	105
Expenses from rents and other services	(7)	(1)	(8)	(5)	0	(5)
Total	1,536	4,288	5,824	1,732	5,063	6,795

SID Bank issued comfort letters for the Prvi faktor Group, which amounted to EUR 9.5 million as at 31 December 2013, compared with EUR 19.8 million as at 31 December 2012. The issued comfort letters do not entail any financial consequences for SID Bank, as they do not give rise to any payment obligation, which is where comfort letters differ significantly from sureties and guarantees, which SID Bank does not issue to the Prvi faktor Group for the purposes of borrowing.

Exposure to the Republic of Slovenia and to Government-Owned Undertakings

The Bank has business relations with the government and undertakings related to the government or in which the government has significant influence.

	SID Bank		SID Bank Group	
Exposure to:	2013	2012	2013	2012
Bank of Slovenia				
Balance as at 31 December				
- settlement account	5,915	408	5,915	408
- deposits	171,501	0	171,501	0
- securities as collateral	255,654	249,910	255,654	249,910
- loans as collateral	21,719	29,182	21,719	29,182
For period				
- interest income	57	44	57	44
Republic of Slovenia				
Balance as at 31 December				
- bonds	82,325	75,066	89,629	82,658
- other securities	84,767	69,422	84,767	70,906
- loans	402	402	402	402
For period				
- interest income	5,862	4,089	6,145	4,411
- other income	2,741	75	2,741	75
Government-owned undertakings				
Balance as at 31 December				
- loans	1,934,344	2,407,931	1,897,051	2,375,214
- impairments	(61,343)	(40,559)	(40,788)	(35,254)
- securities	28,494	20,629	29,747	31,330
- impairments	(2,767)	(1)	(2,767)	(2,151)
- contingent liabilities and assumed commitments	22,614	58,180	22,614	58,180
- provisions	(548)	(7,061)	(548)	(7,061)
- other	13	0	400	534
- estimated recourse receivables	0	0	7,173	7,176
- impairments of estimated recourse receivables	0	0	(1,796)	(1,034)
For period				
- interest income	56,106	80,953	54,301	78,860
- other income	2,133	1,216	7,329	10,509
- other income from recourse receivables	0	0	4,696	1,630
- impairments from recourse receivables	0	0	(1,298)	(167)
- net reinsurance expenses (income-expenses)	0	0	(54)	58
- impairments and provisions	(2,540)	(16,044)	13,021	(15,946)
- other expenses	0	0	(8,685)	(5,592)

2.6.3 Remuneration System

In the process of adoption of the Bank's remuneration policy, a proposal by the staff was discussed by the Management Board, the Remuneration and HR Committee, and the Supervisory Board, which also approved the policy. The Remuneration and HR Committee has three members (two members of the Supervisory Board and an outside expert). Its main powers in connection with the remuneration system are taking positions on individual aspects of remuneration policy, reviewing the relevance of general principles of remuneration policy and the level to which remuneration policy complies with the Bank's business policy over the long term, as well as assessing whether the remuneration system encourages proper risk management.

The remuneration policy defines members of the Management Board, the Assistant to the Management Board, the head of internal control system and heads of other independent control functions, and employees directly responsible for taking up risk with a significant influence on the Bank's risk profile (members of the Liquidity Committee and members of the Credit Committee) as employees whose work is of a specific nature. The main criteria for determining the significance of their influence on the Bank's risk profile are the nature of their work tasks and their powers and responsibilities with regard to concluding transactions and taking up risks.

Employees authorised to conclude transactions at value of more than EUR 2,000 are considered directly responsible for taking up risk. The criterion of significance in their impact on the Bank's risk profile is determined quantitatively and corresponds the current criteria for significant items in the statement of financial position of the Bank's Annual Report, i.e. 1% of the Bank's assets.

The fixed component of remuneration accounts for at least 75% of the employee's total remuneration. The variable component of remuneration is paid to employees whose work is of a specific nature as stipulated in their employment contracts concluded with the Bank, namely:

1. Employees whose contracts are concluded in accordance with the provisions of the Collective Agreement for Slovenia's Banking Sector and the Bank's Collective Agreement, are paid the variable component on the basis of individual job performance appraisal or as bonus for special achievements. Employees' performance is assessed once a year by their superiors, based on fulfilment of tasks and goals set in the annual operational plan and considering the criteria of quantity and quality of work, relationships with colleagues and customers, willingness to commit, and the level of competencies.

Corporate performance-related pay depends on implementation of the annual operational plan objectives at the level of the Bank and organisational units, and on achieving key strategic indicators.

2. Employees whose contracts are concluded according to individually negotiated terms (the so called "individual contracts") are paid the variable component once a year, based on corporate performance and on achieving agreed objectives.

3. The criteria for performance-related variable component of remuneration for members of the Bank's Management Board are set out by the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (ZPPOGD).

In accordance with the Bank's Collective Agreement 10% of the total amount of funds for salaries are intended for the variable component of remuneration for employees under the Collective Agreement. Nevertheless, the percentage may decrease if determined so in the Bank's Remuneration Policy.

Corporate performance-related remuneration is paid after the annual report has been approved by the Supervisory Board, on condition that profit is shown in a financial year. The Management Board can decide differently to what is determined in the Bank's Collective Agreement in the case of recommendation given by Bank's shareholders or any other person who has the power to make recommendations which refer to limitations on performance-related remuneration.

Provisions regarding performance-related remuneration do not apply if the variable component of remuneration must be decreased in accordance with the provisions of the Bank's Remuneration Policy, in particular with the provisions relating to the impact of the variable component on the Bank's financial situation and adjustment of remuneration to risks.

The accrual period is identical to the calendar year. The deferral period takes effect at the end of accrual period, and last for three years for President and other members of the Management Board and for the Assistant to the Management Board. For other employees the possibility of omission in accordance with the regulations governing employee remuneration at banks was used.

Under the Slovene Export and Development Bank Act (ZSIRB), the Bank may not pay the variable component of remuneration in the form of financial instruments.

Remuneration of Members of the Supervisory Board and Employees Whose Work is of a Specific Nature in 2013

The remuneration from session fees and reimbursements of travel expenses of members of the Supervisory Board, the Audit Committee, and the Remuneration and HR Committee was as follows: Mr Matej Runjak (President of the Supervisory Board until 21 February 2013) EUR 5.2 thousand, Mr Robert Ličen (MSc, member of the Supervisory Board and member of the Audit Committee until 21 February 2013) EUR 3.2 thousand, Ms Monika Pintar Mesarič (President of the Supervisory Board from 21 February 2013 and Chairperson of the Remuneration and HR Committee from 5 March 2013) EUR 29.1 thousand, Mr Janez Tomšič (Deputy-President of the Supervisory Board, Deputy-Chairman of the Remuneration and HR Committee) EUR 24.5 thousand, Mr Martin Jakše (member of the Supervisory Board, Chairman of the Audit Committee) EUR 27.6 thousand, (including EUR 0.1 thousand in travel expenses), Mr Marjan Divjak (MSc, member of the Supervisory Board and Deputy-Chairman of the Audit Committee) EUR 23.1 thousand, Mr Leo Knez (MSc, member of the Supervisory Board from 21 February 2013 and member of the Audit Committee from 5 March 2013) EUR 20.4 thousand, Mr Milan Matos (member of the Supervisory Board and member of the Remuneration and HR Committee until 6 September 2013) EUR 15.0 thousand, Mr Štefan Grosar (member of the Supervisory Board) EUR 18.4 thousand, and Mr Anton Rop (MSc, member of the Supervisory Board from 6 September 2013) EUR 5.8 thousand (including EUR 0.3 thousand in travel expenses).

The remuneration from session fees and reimbursements of travel expenses of external members of the Audit Committee and the Remuneration and HR Committee was as follows: Ms Blanka Vezjak (MSc, external member of the Audit Committee) EUR 5.2 thousand (including EUR 0.5 thousand in travel expenses) and Ms Alenka Stanič (PhD, external member of the Remuneration and HR Committee) EUR 4.8 thousand.

Representatives of SID Bank in the supervisory bodies of Bank's subsidiaries did not receive session fees or other remuneration for their supervisory duties.

A total of EUR 827 thousand of fixed remuneration was paid to ten employees whose work is of a specific nature, of which EUR 311 thousand went to the Management Board members (EUR 162 thousand to the President Mr Sibil Svilan, and EUR 149 thousand to Mr Jožef Bradeško), while EUR 516 thousand went to the others. Variable component of remuneration was paid at amount of EUR 103 thousand for 2013 and EUR 22 thousand of deferred from previous years, of which the Management Board members received EUR 37 thousand of current and EUR 22 thousand of deferred variable component of remuneration from previous years (EUR 19 thousand of current and EUR 12 thousand of deferred to Mr Sibil Svilan, and EUR 18 thousand of current and EUR 10 thousand of deferred to Mr Jožef Bradeško). In 2013 the deferred (not yet paid) variable component of remuneration of employees whose work is of a specific nature amounted to EUR 53 thousand, of which EUR 37 thousand for the Management Board members (EUR 19 thousand for Mr Sibil Svilan and EUR 18 thousand for Mr Jožef Bradeško).

The remaining Management Board Members' remuneration in 2013 comprised insurance premium (EUR 5 thousand for Mr Sibil Svilan and EUR 4 thousand for Mr Jožef Bradeško), and reimbursements of expenses (EUR 1 thousand for Mr Jožef Bradeško).

2.6.4 Total Amount Spent on the Auditor

	SID Bank		SID Bank Group	
	2013	2012	2013	2012
Auditing of the annual report	50	56	112	121
Other auditing services	32	33	61	53
Tax advice	0	0	25	1
Total	82	89	198	175

2.6.5 Events after the Reporting Period

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

In February 2014, SID Bank was rated by Standard & Poor`s Rating Services. Its long-term rating is A- with stable outlook, and the short-term rating is A-2. The rating of the Bank equals the rating of the Republic of Slovenia.

Moreover, the Moody's Investors Service published a new rating of SID Bank in February 2014, which has remained Ba1; however, the outlook for this rating was changed to stable, from negative.

3 Risk Management

3.1 Credit Risk

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

In credit and guarantee transactions credit risk entails the risk of default with regard to the debtor's financial position and also the risk related to the geographical location of the debtor's country. Credit risk from securities derives from the portfolio managed by SID Bank for the purpose of ensuring liquidity and asset liability management. SID Bank does not undertake trading. SID Bank manages this credit risk primarily by means of limits on exposure with regard to the issuer's credit rating, the issuer's location, the type of issuer and the type of instrument, and the monitoring of market values of securities. Counterparty credit risk in the settlement of transactions in securities and in relation to derivatives is also taken into account. SID Bank calculates its exposure to credit risk in relation to derivatives using an original exposure method under which the exposure value represents the hypothetical amount of each instrument, multiplied by percent referred to in Article 275 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, which is increased according to the original maturity of the contract. Exposure is managed in the framework of limits on exposure to credit risk, which are approved by the Credit Committee.

SID Bank classifies financial assets and commitments under off-balance-sheet items according to the Bank of Slovenia system of ratings from A to E, where A is assigned to clients with the highest rating and E is the lowest rating on the basis of the estimate of an individual debtor's financial position, the debtor's ability to ensure sufficient cash inflow for the regular fulfilment of liabilities to SID Bank in the future, the type and extent of collateral for a financial asset or commitment under off-balance-sheet items of an individual debtor, and the fulfilment of debtor's liabilities to SID Bank in previous periods. The basis for classification consists of internal credit ratings based on the assessment of quantitative and qualitative elements and Bank of Slovenia criteria for the classification of financial assets and commitments under off-balance-sheet items into credit ratings. Throughout the lifetime of a credit transaction the Bank monitors the debtor's performance and reviews the credit rating on a monthly basis.

SID Bank has its own methodology for the assessment of credit risk losses, which provides adequate coverage of expected losses from credit risk. Under the IFRS, debtors are rated on an individual basis, or in groups as part of the collective assessment of credit risk losses. These are created from groups of debtors with comparable risks, which are primarily related to the debtor's business activities, the debtor's geographical location and the attributes of the financing products.

As at 31 December 2013 SID Bank had total impairments and provisioning of EUR 239,942 thousand, up EUR 44,789 thousand on 31 December 2012. Impairments for loans granted and other financial assets amounted to EUR 229,153 thousand, provisions for off-balance-sheet liabilities to EUR 7,982 thousand, and impairments of available-for-sale financial assets to EUR 2,807 thousand. The impairments and provisioning derive from collective and individual loss assessments, where losses on C-rated exposure more than 90 days in arrears, D-rated and E-rated exposures are generally assessed on an individual basis.

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

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

Maximum exposure to credit risk

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Gross exposure of on-balance-sheet assets	**4,006,165**	**4,249,831**	**4,146,354**	**4,410,214**
Balances in accounts at central bank	177,416	408	177,417	409
Financial assets held for trading	-	1	-	1
Derivatives	-	1	-	1
Available-for-sale financial assets	344,433	309,755	370,129	333,854
Shares and participating interests at fair value	2,175	135	7,363	7,337
Gross exposure	4,942	221	12,117	9,453
Impairments (individual)	(2,767)	(86)	(4,754)	(2,117)
Debt securities	342,258	309,620	362,766	326,517
Gross exposure	342,298	309,743	362,806	326,640
Impairments (individual)	(40)	(123)	(40)	(123)
Loans	3,216,261	3,680,998	3,315,041	3,798,186
Loans to banks	2,614,503	3,031,156	2,631,102	3,057,451
Gross exposure	2,625,114	3,068,291	2,641,747	3,094,625
Impairments (individual)	-	(13,432)	(34)	(13,470)
Impairments (collective)	(10,611)	(23,703)	(10,611)	(23,703)
Loans to non-banking clients	601,136	649,294	682,213	738,831
Gross exposure	819,298	792,584	914,062	899,136
Impairments (individual)	(181,865)	(108,351)	(195,282)	(130,580)
Impairments (collective)	(36,297)	(34,939)	(36,567)	(29,725)
Other financial assets	622	548	1,727	1,904
Gross exposure	1,002	580	2,111	1,948
Impairments (individual)	(379)	(31)	(383)	(43)
Impairments (collective)	(1)	(1)	(1)	(1)
Derivatives held for hedging	36,095	78,003	36,095	78,003
Gross exposure of off-balance-sheet liabilities	**54,863**	**100,833**	**55,315**	**101,348**
Guarantees	24,047	27,685	24,499	28,200
Gross exposure	25,936	28,280	26,388	28,795
Provisions (individual)	(1,645)	(82)	(1,645)	(82)
Provisions (collective)	(244)	(513)	(244)	(513)
Other off-balance-sheet liabilities	22,834	58,661	22,834	58,661
Gross exposure	28,927	72,553	28,927	72,553
Provisions (individual)	(302)	-	(302)	-
Provisions (collective)	(5,791)	(13,892)	(5,791)	(13,892)
Total gross exposure to credit risk	**4,061,028**	**4,350,664**	**4,201,669**	**4,511,562**
Total net exposure to credit risk	**3,821,086**	**4,155,511**	**3,946,015**	**4,297,314**

The table illustrates the maximum exposure to credit risk of SID Bank and the SID Bank Group deriving from balances at the central bank, loans, investments in financial instruments and off-balance-sheet liabilities, excluding collateral or credit quality. SID Bank's exposure to credit risk as at 31 December 2013 was higher than as at 31 December 2012 as a result of balances at central bank and available-for-sale debt securities, while the exposure from loans, derivatives and off-balance-sheet liabilities decreased.

Breakdown of loan exposures by type of collateral

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Carrying amount of secured loans	**311,779**	**319,025**	**332,802**	**345,989**
Secured by Slovenian government guarantee	18,319	13,672	18,319	13,672
Secured by guarantee of insurance corporations and banks	-	-	9,602	8,560
Securities collateral	10,590	21,491	10,634	21,949
Commercial real estate collateral	147,382	172,730	153,277	181,988
Other forms of collateral	135,488	111,133	140,970	119,821
Carrying amount of unsecured loans	**2,904,483**	**3,361,973**	**2,982,239**	**3,452,197**
Total carrying amount of loans	**3,216,262**	**3,680,998**	**3,315,041**	**3,798,186**

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

The majority of SID Bank's credit portfolio comprises loans to banks established in Slovenia, who transfer the funding to the final beneficiaries in accordance with ZSIRB. The aforementioned loans are generally unsecured.

SID Bank's total collateral value for exposures relating to loans and off-balance-sheet liabilities amounted to EUR 544,277 thousand at 31 December 2013, compared with EUR 560,688 thousand as at 31 December 2012. In the breakdown of collaterals the largest value is that of business real estate collateral, followed by movable property collateral, fiduciary cession, fiduciary cession of title to real estate, the SID Bank insurance policy for the account of the Republic of Slovenia, corporate guarantees of companies rated A- or above (in accordance with the SID Bank's internal rating methodology), transfers of bank loans to companies as collateral, equities collateral, and other collateral.

On 31 December 2013 SID Bank undertook a revaluation of real estate collateral that was appraised before 1 July 2013, using a statistical method.

The total fair value of the collateral for loans granted at the SID Bank Group amounted to EUR 589,216 thousand as at 31 December 2013, compared with EUR 601,693 thousand as at 31 December 2012.

Breakdown of loan exposure by rating

SID Bank	31 Dec 2013 Loans and off-balance-sheet liabilities	31 Dec 2013 Impairments and provisions	31 Dec 2012 Loans and off-balance-sheet liabilities	31 Dec 2012 Impairments and provisions
Total	**3,500,278**	**(237,135)**	**3,962,288**	**(194,944)**
Structure	**100.00%**	**100.00%**	**100.00%**	**100.00%**
A-rated	18.16%	6.92%	15.86%	10.48%
B-rated	23.99%	9.06%	63.44%	25.99%
C-rated	50.99%	20.33%	17.06%	21.36%
D-rated	5.47%	45.08%	3.11%	32.21%
E-rated	1.39%	18.61%	0.53%	9.96%

SID Bank disclosed a gross loan and off-balance-sheet liabilities exposure of EUR 3,500,278 thousand as at 31 December 2013, down by 11.66% compared with 31 December 2012. As at 31 December 2013, 42.15% of total loans and off-balance-sheet liabilities were rated A or B, compared with 79.30% as at 31 December 2012. The proportion of loans and off-balance-sheet liabilities rated A increased from 15.86% as at 31 December 2012 to 18.16% as at 31 December 2013. The increase was a result of the improved financial position of individual borrowers and new loan transactions that were classified to this group. Major changes occurred in the breakdown of the credit portfolio in the B and C ratings, most of all as a result of downgradings of certain individual borrowers from the financial and insurance activity, which accounts for a large share of loan exposure. These exposures refer to the group of payers and the percent of impairments did not increase. Exposure to D-rated and E-rated loans increased, as a result of a rise in the number of insolvency proceedings and the number of defaulters. SID Bank created additional impairments and provisions from the exposure of loans and off-balance-sheet liabilities in the amount of EUR 42,191 thousand in 2013.

The average coverage of exposure to credit risk by impairments and provisioning for non-banking clients stood at 26.49% as at 31 December 2013 (31 December 2012: 18.08%). The coverage of exposure to C-rated clients more than 90 days in arrears, D- and E-rated clients by impairments and provisioning stood at 55.86% as at 31 December 2013 (31 December 2012: 56.98%).

Breakdown of loan exposure by maturity and impairment

SID Bank	31 Dec 2013 Loans to banks	31 Dec 2013 Loans to non-banking clients	31 Dec 2013 Other financial assets	31 Dec 2013 Total loans	31 Dec 2012 Loans to banks	31 Dec 2012 Loans to non-banking clients	31 Dec 2012 Other financial assets	31 Dec 2012 Total loans
Gross loans	**2,625,115**	**819,298**	**1,002**	**3,445,415**	**3,068,291**	**792,584**	**580**	**3,861,455**
Non-past-due individually non-impaired loans	2,625,115	371,812	443	2,997,370	2,934,201	537,186	540	3,471,927
Past-due individually non-impaired loans	-	22,966	11	22,977	-	21,691	3	21,694
Individually impaired loans	-	424,520	548	425,068	134,090	233,707	37	367,834
of which D- and E-	-	236,441	543	236,984	-	139,002	24	139,026
Impairments	**(10,611)**	**(218,162)**	**(380)**	**(229,153)**	**(37,135)**	**(143,290)**	**(32)**	**(180,457)**
Individual impairments	-	(181,865)	(379)	(182,244)	(13,432)	(108,351)	(31)	(121,814)
of which impairments of D- and E-rated loans	-	(149,241)	(378)	(149,619)	-	(82,100)	(24)	(82,124)
Collective impairments	(10,611)	(36,297)	(1)	(46,909)	(23,703)	(34,939)	(1)	(58,643)
Net loans	**2,614,504**	**601,136**	**622**	**3,216,262**	**3,031,156**	**649,294**	**548**	**3,680,998**
Fair value of collateral	**22,845**	**521,432**	**-**	**544,277**	**5,559**	**545,688**	**-**	**551,247**

The increase in individually impaired loans was the result of the deterioration in the economy, which led to a rise in the number of defaulters and insolvency proceedings. Impairments also increased as a result: individual impairments in 2013 were up EUR 60,430 thousand in total on 2012, of which individual impairments for loans rated D and E increased by EUR 67,495 thousand, while individual impairments for loans rated C declined as a result of loans being downgraded to D or E ratings. The percentage of collective impairments for banks from countries assigned a risk rating of 0 or 1 under the MEIP listing decreased in 2013 on account of implemented measures by the Republic of Slovenia to strengthen the stability of banks. The majority of SID Bank's credit portfolio is classified into the aforementioned group, as in accordance with the ZSIRB it provides loans to banks established in Slovenia, who transfer the funding to the final beneficiaries.

SID Bank Group	31 Dec 2013 Loans to banks	31 Dec 2013 Loans to non-banking clients	31 Dec 2013 Other financial assets	31 Dec 2013 Total loans	31 Dec 2012 Loans to banks	31 Dec 2012 Loans to non-banking clients	31 Dec 2012 Other financial assets	31 Dec 2012 Total loans
Gross loans	**2,641,748**	**914,062**	**2,110**	**3,557,919**	**3,094,624**	**899,136**	**1,947**	**3,995,707**
Non-past-due individually non-impaired loans	2,641,467	461,208	1,499	3,104,174	2,960,252	603,786	1,830	3,565,868
Past-due individually non-impaired loans	1	30,167	60	30,228	1	29,091	69	29,161
Individually impaired loans	279	422,687	552	423,517	134,371	266,259	48	400,678
Impairments	**(10,645)**	**(231,849)**	**(384)**	**(242,877)**	**(37,173)**	**(160,305)**	**(44)**	**(197,521)**
Individual impairments	(34)	(195,282)	(383)	(195,698)	(13,470)	(130,580)	(43)	(144,093)
Collective impairments	(10,611)	(36,567)	(1)	(47,179)	(23,703)	(29,725)	(1)	(53,429)
Net loans	**2,631,103**	**682,213**	**1,727**	**3,315,042**	**3,057,451**	**738,831**	**1,904**	**3,798,186**
Fair value of collateral	**22,845**	**566,060**	**312**	**589,216**	**5,559**	**595,652**	**482**	**601,693**

Loans neither past due nor individually impaired

SID Bank	31 Dec 2013 Loans to banks	31 Dec 2013 Loans to non-banking clients	31 Dec 2013 Other financial assets	31 Dec 2013 Total loans	31 Dec 2012 Loans to banks	31 Dec 2012 Loans to non-banking clients	31 Dec 2012 Other financial assets	31 Dec 2012 Total loans
Total	**2,625,115**	**371,812**	**443**	**2,997,370**	**2,934,201**	**537,186**	**540**	**3,471,927**
A-rated	441,440	175,024	438	616,902	389,900	213,747	454	604,101
B-rated	678,375	141,099	5	819,479	2,093,045	289,384	4	2,382,433
C-rated	1,505,300	55,689	-	1,560,989	451,256	29,048	82	480,386
D-rated	-	-	-	-	-	5,007	-	5,007
E-rated	-	-	-	-	-	-	-	-
Fair value of collateral	**22,845**	**311,588**	**-**	**334,433**	**5,559**	**332,349**	**-**	**337,908**

Loans past due but not individually impaired

SID Bank	31 Dec 2013 Loans to banks	31 Dec 2013 Loans to non-banking clients	31 Dec 2013 Other financial assets	31 Dec 2013 Total loans	31 Dec 2012 Loans to banks	31 Dec 2012 Loans to non-banking clients	31 Dec 2012 Other financial assets	31 Dec 2012 Total loans
Total	**-**	**22,966**	**11**	**22,977**	**-**	**21,691**	**3**	**21,694**
Up to 30 days in arrears	-	17,613	1	17,614	-	19,704	3	19,707
30 to 90 days in arrears	-	3,934	3	3,937	-	1,803	-	1,803
More than 90 days in arrears	-	1,419	7	1,426	-	184	-	184
Fair value of collateral	**-**	**34,208**	**-**	**34,208**	**-**	**41,421**	**-**	**41,421**

SID Bank Group	31 Dec 2013 Loans to banks	31 Dec 2013 Loans to non-banking clients	31 Dec 2013 Other financial assets	31 Dec 2013 Total loans	31 Dec 2012 Loans to banks	31 Dec 2012 Loans to non-banking clients	31 Dec 2012 Other financial assets	31 Dec 2012 Total loans
Total	**1**	**30,167**	**60**	**30,228**	**1**	**29,091**	**70**	**29,161**
Up to 30 days in arrears	-	21,778	43	21,821	1	24,147	59	24,207
30 to 90 days in arrears	-	5,813	9	5,822	-	3,309	5	3,314
More than 90 days in arrears	1	2,576	8	2,585	-	1,635	6	1,641
Fair value of collateral	**-**	**41,585**	**1**	**41586**	**-**	**49,972**	**-**	**49,972**

Individually impaired loans

SID Bank	31 Dec 2013 Loans to banks	Loans to non-banking clients	Other financial assets	Total loans	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Total loans
Total	**-**	**424,520**	**548**	**425,068**	**134,090**	**233,707**	**37**	**367,834**
Non-past due	-	255,322	517	255,839	134,090	88,631	-	222,721
Up to 30 days in arrears	-	60	-	60	-	15,728	-	15,728
30 to 90 days in arrears	-	74,571	-	74,571	-	9,459	-	9,459
More than 90 days in arrears	-	94,567	31	94,598	-	119,889	37	119,926
Fair value of collateral	**-**	**175,636**	**-**	**175,636**	**-**	**171,918**	**-**	**171,918**

SID Bank Group	31 Dec 2013 Loans to banks	Loans to non-banking clients	Other financial assets	Total loans	31 Dec 2012 Loans to banks	Loans to non-banking clients	Other financial assets	Total loans
Total	**279**	**422,687**	**552**	**423,517**	**134,372**	**266,259**	**49**	**400,679**
Non-past due	-	218,309	517	218,826	134,090	92,886	-	226,976
Up to 30 days in arrears	-	1,503	-	1,503	-	15,987	8	15,995
30 to 90 days in arrears	-	79,964	-	79,964	-	9,769	-	9,769
More than 90 days in arrears	279	122,913	35	123,226	282	147,618	41	147,940
Fair value of collateral	**-**	**196,880**	**-**	**196,880**	**-**	**188,139**	**-**	**188,139**

The gross exposure to past-due receivables from loans as at 31 December 2013 amounted to EUR 192,206 thousand at SID Bank and to EUR 234,921 thousand at the SID Bank Group. SID Bank has outstanding past-due receivables from loans to 20 undertakings in Slovenia, one undertaking in Montenegro, and one undertaking in Serbia. Other undertakings in the SID Bank Group disclosed the majority of outstanding past-due receivables from 56 undertakings, among them 18 from Slovenia, 19 from Croatia, 13 from Serbia, and 6 from Bosnia and Herzegovina.

SID Bank's past-due exposures from loans are secured by commercial property collateral, movable property collateral, fiduciary cession of title to real estate, fiduciary cession, guarantees of companies rated A- or above (in accordance with the SID Bank's internal rating methodology), SID Bank's insurance policies for the account of the Republic of Slovenia, irrevocable guarantees of the Republic of Slovenia, deposit collateral with the SID Bank, and other forms of collateral.

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

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

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

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

Restructured loans

	31 Dec 2013				31 Dec 2012			
SID Bank	Loans to banks	Loans to non-banking clients	Other financial assets	Total loans	Loans to banks	Loans to non-banking clients	Other financial assets	Total loans
Gross loans	**24,651**	**225,227**	**516**	**250,394**	**34,993**	**145,028**	**-**	**180,021**
Non-past due individually non-impaired loans	24,651	5,292	-	29,943	-	-	-	-
Past-due and individually non-impaired loans	-	3,934	-	3,934	-	9,789	-	9,789
Individually impaired loans	-	216,001	516	216,517	34,993	135,239	-	170,232
of which D- and E-rated loans	-	184,776	516	185,292	-	66,152	-	66,152
Impairments	**(99)**	**(106,953)**	**(352)**	**(107,404)**	**(3,505)**	**(58,125)**	**-**	**(61,630)**
Individual impairments	-	(106,310)	(352)	(106,662)	(3,505)	(57,526)	-	(61,031)
of which impairments of D- and E-rated loans	-	(103,182)	(352)	(103,534)	-	(37,845)	-	(37,845)
Collective impairments	(99)	(643)	-	(741)	-	(599)	-	(599)

	31 Dec 2013				31 Dec 2012			
SID Bank Group	Loans to banks	Loans to non-banking clients	Other financial assets	Total loans	Loans to banks	Loans to non-banking clients	Other financial assets	Total loans
Gross loans	**24,651**	**232,940**	**516**	**258,107**	**34,993**	**150,287**	**-**	**185,280**
Non-past due individually non-impaired loans	24,651	5,292	-	29,943	-	177	-	177
Past-due and individually non-impaired loans	-	3,934	-	3,934	-	9,825	-	9,825
Individually impaired loans	-	223,714	516	224,230	34,993	140,286	-	175,279
Impairments	**(99)**	**(112,896)**	**(352)**	**(113,347)**	**(3,505)**	**(61,418)**	**-**	**(64,923)**
Individual impairments	-	(112,253)	(352)	(112,605)	(3,505)	(60,819)	-	(64,324)
Collective impairments	(99)	(643)	-	(742)	-	(600)	-	(600)

The carrying amount of restructured loans (gross exposure minus impairments) at SID Bank amounted to EUR 142,990 thousand as at 31 December (2012: EUR 118,391 thousand). New agreements on repayment terms were reached with six Slovenian undertakings.

The carrying amount of restructured loans at the SID Bank Group amounted to EUR 144,760 thousand (2012: EUR 120,357 thousand). Restructured loans of material significance in value terms were concluded with 30 undertakings at the SID Bank Group. New agreements on loan restructuring at the SID Bank Group were reached with 22 Slovenian and 8 foreign undertakings. Loans were restructured by decreasing the interest rate and extending or deferring the deadline for the repayment of receivables.

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

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
	344,433	**309,755**	**370,129**	**333,853**
AAA	32,459	45,297	34,464	47,274
AA+ to AA-	40,086	28,569	42,100	28,569
A+ to A-	65,637	52,222	73,925	59,709
BBB+ to BBB-	6,788	148,639	6,887	155,153
Below BBB-	172,570	11,612	179,874	11,612
Unrated	26,893	23,416	32,879	31,536

The table illustrates the breakdown of the carrying amount of available-for-sale equity and debt securities in terms of the issuer's international credit rating. Where the issuer has been assessed by several international rating agencies (Moody's Investors service, Standard & Poor's Ratings Services and Fitch Ratings), the principle of prudence dictates that the lowest rating is applied.

The rating below BBB- includes, in particular, available-for-sale debt securities issued by the Republic of Slovenia.

A detailed breakdown of the securities portfolio as at 31 December 2013 is given in point 2.5.2.

Exposure to credit risk from derivatives used for hedging

	SID Bank and SID Bank Group	
	31 Dec 2013	31 Dec 2012
Derivatives held for trading	**0**	**1**
Interest rate swaps	0	1
Derivatives used for hedging	**36,095**	**78,003**
Interest rate swaps	36,095	78,003

As at 31 December 2013 SID Bank held nine interest rate swaps as fair value hedges used in hedge accounting, in the total nominal amount of EUR 759,140 thousand. In 2013 SID Bank concluded one new interest rate swap as fair value hedge used in hedge accounting, in the nominal amount of EUR 60,000 thousand. Simultaneously with the prepayment of issued bonds, SID Bank cancelled interest rate swaps used for hedging, in the total nominal amount of EUR 383,860 thousand. SID Bank held five interest rate swaps held for trading in the total nominal amount of EUR 1,019 thousand as at 31 December 2013. The fair value of interest rate swaps held for trading is EUR 269. The exposure to credit risk from derivatives using the original exposure method is EUR 34,486 thousand.

Breakdown of exposure to credit risk by geographical region

SID Bank	Slovenia	Other EU members	SE and E Europe (excluding EU members)	Other countries	Total
Financial assets as at 31 Dec 2013	**3,119,754**	**529,026**	**116,239**	**9,187**	**3,774,206**
Balances in accounts at central bank	177,416	-	-	-	177,416
Financial assets held for trading	-	-	-	-	-
Derivatives	-	-	-	-	-
Available-for-sale financial assets	199,000	142,274	-	3,159	344,433
Shares and participating interest at fair value	2,175	-	-	-	2,175
Debt securities	196,825	142,274	-	3,159	342,258
Loans	2,730,953	363,042	116,239	6,028	3,216,262
Loans to banks	2,242,579	358,838	13,087	-	2,614,504
Loans to non-banking clients	487,752	4,204	103,152	6,028	601,136
Other financial assets	622	-	-	-	622
Derivatives used for hedging	12,385	23,710	-	-	36,095
Off-balance-sheet liabilities 31 Dec 2013	**45,977**	**-**	**904**	**-**	**46,881**
Guarantees	24,047	-	-	-	24,047
Gross exposure	25,936	-	-	-	25,936
Provisioning	(1,889)	-	-	-	(1,889)
Other off-balance-sheet liabilities	21,930	-	904	-	22,834
Gross exposure	28,019	-	908	-	28,927
Provisioning	(6,089)	-	(4)	-	(6,093)
Total exposure as at 31 Dec 2013	**3,165,731**	**529,026**	**117,143**	**9,187**	**3,821,087**
Financial assets as at 31 Dec 2012	3,557,824	382,097	122,068	7,176	4,069,165
Off-balance-sheet liabilities as at 31 Dec 2012	83,631	-	2,715	-	86,346
Total exposure as at 31 Dec 2012	**3,641,455**	**382,097**	**124,783**	**7,176**	**4,155,511**

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

In terms of financial assets and off-balance-sheet liabilities, SID Bank is exposed to the PIIGSSHC countries (Portugal, Ireland, Italy, Greece, Spain, Slovenia, Hungary and Cyprus) in the amount of EUR 3,171,305 thousand, of which exposure to Slovenia amounts to EUR 3,165,731 thousand, exposure to Spain: EUR 3,119 thousand (AFS financial assets), Italy: EUR 1,031 thousand (AFS financial assets), Ireland: EUR 1,001 thousand (AFS financial assets), and to Cyprus in the amount of EUR 423 thousand (AFS financial assets).

SID Bank's exposure to Slovenia as at 31 December 2013 was EUR 475,724 thousand lower than as at 31 December 2012, while the exposure to other EU countries increased by EUR 146,929 thousand. SID Bank uses internal exposure limits to apply a maximum allowable exposure to individual geographical regions.

SID Bank Group	Slovenia	Other EU members	SE and E Europe (excluding EU members)	Other countries	Total
Financial assets as at 31 Dec 2013	**3,150,750**	**589,000**	**149,076**	**9,857**	**3,898,682**
Balances in accounts at central bank	177,416	1	1	-	177,417
Financial assets held for trading	-	-	-	-	-
Derivatives	-	-	-	-	-
Available-for-sale financial assets	214,218	152,141	-	3,770	370,129
Shares and participating interest at fair value	7,362	1	-	-	7,363
Debt securities	206,856	152,140	-	3,770	362,766
Loans	2,746,731	413,149	149,075	6,087	3,315,041
Loans to banks	2,255,137	362,064	13,903	-	2,631,103
Loans to non-banking clients	490,966	50,993	134,166	6,087	682,212
Other financial assets	628	92	1,007	-	1,727
Derivatives used for hedging	12,385	23,710	-	-	36,095
Off-balance-sheet liabilities as at 31 Dec 2013	**46,362**	**48**	**924**	**-**	**47,333**
Guarantees	24,432	48	20	-	24,499
Gross exposure	26,321	48	20	-	26,388
Provisioning	(1,889)	-	-	-	(1,889)
Other off-balance-sheet liabilities	21,930	-	904	-	22,834
Gross exposure	28,019	-	908	-	28,927
Provisioning	(6,089)	-	(4)	-	(6,093)
Total exposure as at 31 Dec 2013	**3,197,111**	**589,048**	**149,999**	**9,857**	**3,946,015**
Financial assets as at 31 Dec 2012	3,586,031	373,442	243,607	7,374	4,210,454
Off-balance-sheet liabilities as at 31 Dec 2012	84,035	-	2,827	-	86,861
Total exposure as at 31 Dec 2012	**3.670.066**	**373.442**	**246.434**	**7.374**	**4.297.315**

Breakdown of exposure to credit risk by sector

SID Bank	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade	Transportation and storage	Professional, scientific and technical activities	Other	Total
Financial assets as at 31 Dec 2013	**3,025,265**	**233,975**	**282,471**	**104,978**	**43,570**	**30,535**	**53,412**	**3,774,206**
Balances in accounts at central bank	177,416	-	-	-	-	-	-	177,416
Financial assets held for trading	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-
Available-for-sale financial assets	99,718	-	233,928	3,680	2,378	-	4,729	344,433
Shares and participating interest	-	-	-	-	2,175	-	-	2,175
Debt securities	99,718	-	233,928	3,680	203	-	4,729	342,258
Loans	2,712,036	233,975	48,543	101,298	41,192	30,535	48,683	3,216,262
Loans to banks	2,614,504	-	-	-	-	-	-	2,614,504
Loans to non-banking clients	97,517	233,803	48,113	101,298	41,192	30,535	48,678	601,136
Other financial assets	15	172	430	-	-	-	5	622
Derivatives used for hedging	36,095	-	-	-	-	-	-	36,095
Off-balance-sheet liabilities 31 Dec 2013	**20,412**	**23,699**	**-**	**678**	**175**	**118**	**1,799**	**46,881**
Guarantees	20,315	3,601	-	-	-	-	131	24,047
Gross exposure	20,397	5,398	-	-	-	-	141	25,936
Provisioning	(82)	(1,797)	-	-	-	-	(10)	(1,889)
Other off-balance-sheet liabilities	97	20,098	-	678	175	118	1,668	22,834
Gross exposure	98	25,356	-	800	207	150	2,316	28,927
Provisioning	(1)	(5,258)	-	(122)	(32)	(32)	(648)	(6,093)
Total exposure as at 31 Dec 2013	**3,045,677**	**257,674**	**282,471**	**105,656**	**43,745**	**30,653**	**55,211**	**3,821,087**
Financial assets as at 31 Dec 2012	3,324,133	235,371	233,776	105,562	44,882	33,104	92,337	4,069,165
Off-balance-sheet liabilities as at 31 Dec 2012	22,066	60,784	30	117	-	559	2,790	86,346
Total exposure as at 31 Dec 2012	**3,346,199**	**296,155**	**233,806**	**105,679**	**44,882**	**33,663**	**95,127**	**4,155,511**

In 2013 SID Bank was again most heavily exposed to the financial and insurance activities sector, as the majority of its assets are earmarked for banks established in Slovenia, which transfer funding to the final beneficiaries in accordance with the ZSIRB. Only exposure to the public administration and defence sector increased between 31 December 2012 and 31 December 2013 due to the implementation of the programme of (co-)financing local government infrastructure and environmental projects.

SID Bank Group	Financial and insurance activities	Manufacturing	Public administration and defence	Wholesale and retail trade	Transportation and storage	Professional, scientific and technical activities	Other	Total
Financial assets as at 31 Dec 2013	**3,023,639**	**261,535**	**298,039**	**167,372**	**45,693**	**33,398**	**69,006**	**3,898,682**
Balances in accounts at central bank	177,417	-	-	-	-	-	-	177,417
Financial assets held for trading	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-
Available-for-sale financial assets	107,417	-	246,738	8,867	2,378	-	4,729	370,129
Shares and participating interest	1	-	-	5,187	2,175	-	-	7,363
Debt securities	107,416	-	246,738	3,680	203	-	4,729	362,766
Loans	2,702,710	261,535	51,301	158,505	43,315	33,398	64,277	3,315,041
Loans to banks	2,631,103	-	-	-	-	-	-	2,631,103
Loans to non-banking clients	71,592	261,359	50,848	157,769	43,315	33,398	63,930	682,212
Other financial assets	16	176	453	736	-	-	347	1,727
Derivatives used for hedging	36,095	-	-	-	-	-	-	36,095
Off-balance-sheet liabilities 31 Dec 2013	**20,412**	**24,069**	**-**	**760**	**175**	**118**	**1,799**	**47,333**
Guarantees	20,315	3,971	-	82	-	-	131	24,499
Gross exposure	20,397	5,768	-	82	-	-	141	26,388
Provisioning	(82)	(1,797)	-	-	-	-	(10)	(1,889)
Other off-balance-sheet liabilities	97	20,098	-	678	175	118	1,668	22,834
Gross exposure	98	25,356	-	800	207	150	2,316	28,927
Provisioning	(1)	(5,258)	-	(122)	(32)	(32)	(648)	(6,093)
Total exposure as at 31 Dec 2013	**3,044,051**	**285,603**	**298,039**	**168,132**	**45,868**	**33,516**	**70,805**	**3,946,015**
Financial assets as at 31 Dec 2012	3,315,540	274,158	249,367	174,521	48,461	37,079	111,329	4,210,455
Off-balance-sheet liabilities as at 31 Dec 2012	22,066	61,161	30	256	-	559	2,790	86,861
Total exposure as at 31 Dec 2012	**3,337,606**	**335,319**	**249,397**	**174,777**	**48,461**	**37,638**	**114,119**	**4,297,316**

3.2 Liquidity Risk

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

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

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

The management of liquidity risk at SID Bank and the SID Bank Group is undertaken in accordance with the liquidity risk management policy, which defines the procedures for managing assets and funding in domestic and foreign currency on a daily basis and also over the long term. SID Bank and the SID Bank Group manage liquidity risk by means of the proper planning of inflows and outflows, which is undertaken separately for own account transactions, the contingency reserve and the Interest Rate Equalisation Programme reserves, and by means of an adequate stock of highly liquid financial assets. Under the liquidity risk management policy SID Bank and the SID Bank Group ensure the regular settlement of all monetary liabilities, and the high-quality management of operational and structural liquidity.

SID Bank monitors and measures its exposure to liquidity risk on the basis of the daily calculation of liquidity ratios in the manner set out by current banking legislation as prescribed by the Regulation on the Minimum Requirements for Ensuring an Adequate Liquidity Position of banks and savings banks. The liquidity ratio is the ratio of the sum of financial assets in domestic and foreign currency to the sum of funding in domestic and foreign currency with regard to residual maturity. The first-bucket liquidity ratio (up to 30 days) must be at least 1, while the second-bucket liquidity ratio (up to 180 days) is of an informative nature. SID Bank has set internal liquidity ratios that are higher than those prescribed by bank regulation, which provides additional security. Should the first-bucket liquidity ratio fall to 1.2 or the second-bucket liquidity ratio fall to 1.1, the treasury department is obliged to put forward measures to safeguard sufficient liquidity. In 2013, the daily values of the first-bucket liquidity ratio surpassed the Bank of Slovenia's requirements The first-bucket liquidity ratio stood at 19.21 as at 31 December 2013, while the second-bucket liquidity ratio stood at 10.62.

SID Bank calculates the liquidity coverage ratio (LCR) as envisaged in Basel III on a three-monthly basis, which significantly surpasses the minimum of 100%. The liquidity coverage ratio stood at 1,809% as at 31 December 2013 (31 December 2012: 2,156%). The calculation is presented to the Liquidity Committee.

In conjunction with other organisational units at SID Bank the Treasury Department carries out weekly and monthly planning of liquidity flows, and simulations of the first-bucket liquidity ratio for the upcoming period. When it is necessary to improve operational or structural liquidity, the Treasury Department proposes measures to manage the aforementioned risks to the Liquidity Committee (lengthening the maturities of liability transactions, shortening the maturities of asset transactions, raising deposits and credit lines on the money market, reducing guarantee and credit potential). For the purpose of raising additional reserves of daily liquidity from the central bank and from other banks, SID Bank has a portfolio of ECB eligible securities.

Breakdown of financial assets and financial liabilities by residual maturity as at 31 December 2013

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**288,143**	**254,325**	**563,751**	**1,308,129**	**1,359,858**	**3,774,206**
Balances in accounts at central bank	177,416	-	-	-	-	177,416
Financial assets held for trading	-	-	-	-	-	-
Available-for-sale financial assets	4,578	34,395	144,600	132,895	27,965	344,433
Loans	106,149	219,930	418,943	1,146,444	1,324,796	3,216,262
Loans to banks	99,581	217,045	335,732	1,003,820	958,326	2,614,504
Loans to non-banking clients	6,353	2,486	83,211	142,620	366,466	601,136
Other financial assets	215	399	-	4	4	622
Derivatives used for hedging	-	-	208	28,790	7,097	36,095
Financial liabilities	**20,526**	**3,775**	**357,633**	**1,661,997**	**1,388,620**	**3,432,551**
Financial liabilities to central bank	-	-	-	207,742	-	207,742
Financial liabilities held for trading	-	-	-	17	-	17
Financial liabilities measured at amortised cost	20,526	3,775	357,633	1,454,109	1,388,620	3,224,663
Deposits and borrowings from banks	19,500	3,644	88,796	525,442	978,094	1,615,476
Deposits and borrowings from non-banking clients	6	-	117,820	-	355,145	472,971
Debt securities	-	-	151,017	928,605	55,091	1,134,713
Other financial liabilities	1,020	131	-	62	290	1,503
Derivatives held for hedging	-	-	-	129	-	129
Liquidity gap as at 31 Dec 2013	267,617	250,550	206,118	(353,868)	(28,762)	341,655
Assumed irrevocable commitments	**357**	**7,392**	**21,321**	**5,263**	**20,396**	**54,729**
Financial assets as at 31 Dec 2012	125,875	302,154	201,422	1,994,338	1,445,376	4,069,165
Financial liabilities as at 31 Dec 2012	838	11	277,184	2,088,366	1,367,121	3,733,520
Liquidity gap as at 31 Dec 2012	**125,037**	**302,143**	**(75,762)**	**(94,028)**	**78,255**	**335,645**
Assumed irrevocable commitments as at 31 Dec 2012	8,636	100	29,633	39,029	22,108	99,506

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets	**343,489**	**297,254**	**573,478**	**1,318,585**	**1,365,879**	**3,898,685**
Balances in accounts at central bank	177,417	-	-	-	-	177,417
Financial assets held for trading	-	-	-	-	-	-
Available-for-sale financial assets	9,783	34,528	148,861	143,061	33,898	370,130
Loans	156,289	262,727	424,409	1,146,734	1,324,884	3,315,042
Loans to banks	109,039	223,516	336,402	1,003,820	958,326	2,631,103
Loans to non-banking clients	46,745	38,431	87,715	142,768	366,554	682,213
Other financial assets	505	780	292	146	4	1,727
Derivatives used for hedging	-	-	208	28,790	7,097	36,095
Financial liabilities	**23,139**	**45,941**	**396,892**	**1,662,611**	**1,388,620**	**3,517,203**
Financial liabilities to central bank	-	-	-	207,742	-	207,742
Financial liabilities held for trading	-	-	-	17	-	17
Financial liabilities measured at amortised cost	23,139	45,941	396,892	1,454,723	1,388,620	3,309,315
Deposits and borrowings from banks	21,257	45,372	127,908	526,009	978,094	1,698,640
Deposits and borrowings from non-banking clients	6	-	117,820	-	355,145	472,971
Debt securities	-	-	151,017	928,605	55,091	1,134,713
Other financial liabilities	1,876	569	147	109	290	2,991
Derivatives held for hedging	-	-	-	129	-	129
Liquidity gap as at 31 Dec 2013	**320,350**	**251,313**	**176,586**	**(344,026)**	**(22,741)**	**381,482**
Assumed irrevocable commitments	**661**	**7,540**	**21,321**	**5,263**	**20,396**	**55,181**
Financial assets as at 31 Dec 2012	196,339	362,623	238,971	1,962,862	1,449,658	4,210,453
Financial liabilities as at 31 Dec 2012	4,406	66,725	313,855	2,088,760	1,367,121	3,840,866
Liquidity gap as at 31 Dec 2012	**191,933**	**295,898**	**(74,884)**	**(125,898)**	**82,537**	**369,587**
Assumed irrevocable commitments as at 31 Dec 2012	9,032	219	29,633	39,029	22,108	100,021

The breakdown of financial assets and financial liabilities by residual maturity illustrates the management of liquidity risk in connection with credit risk. The items are disclosed in net amounts (gross amounts minus impairments). Despite the adverse financial and economic situation, SID Bank did not have any liquidity problems in 2013, as a result of the long maturities of its liability transactions and its adequate secondary liquidity.

Since December 2011 SID Bank has again been obliged to meet the reserve requirement at the central bank. The reserve requirement is 1% of the stock of deposits received and issued debt securities with an agreed maturity of up to 2 years. A general allowance of EUR 100 thousand is taken into account in the calculation.

SID Bank is deemed to have met the reserve requirement if the average balance in the settlement account at the end of the calendar day during the maintenance period is no less than the amount calculated for the aforementioned period. Under the Rules on the maintenance of the reserve requirement, the required average can be managed continually each day in the individual maintenance period, or can be met on the final day of the period by providing the requisite funds on a one-off basis. The reserve requirement calculated for the period between 11 December 2013 and 14 January 2014 stood at EUR 599 thousand. SID Bank ensured that it met the reserve requirement in the first half of this period.

3.3 Interest Rate Risk

Interest rate risk is the risk of a change in the interest rates of interest-sensitive asset and liability items that could have an adverse impact on profit or loss, and on the economic value of assets, liabilities and off-balance-sheet items. To a great extent exposure to interest rate risk derives from interest-sensitive assets with different maturities and a different repricing period compared with interest-sensitive liabilities (the income aspect). Another part of interest rate risk consists of the sensitivity of investments to changes in interest rates (the economic aspect).

SID Bank is exposed to interest rate risk from available-for-sale securities, loans granted and the balance in the settlement account and in commercial accounts on the asset side, and from borrowings and issued debt securities on the liability side.

Since SID Bank also obtains funding at fixed interest rate, it endeavours to decrease the interest rate risk by concluding transactions with derivatives (interest rate swaps) used in hedge accounting to decrease the volatility of the profit or loss from the change in the fair value of derivatives used for hedging.

SID Bank analyses the interest rate risk exposure using the interest rate gap method where it pursues the policy of a closed banking position or a minimum interest rate gap possible.

SID Bank primarily manages its exposure to interest rate risk by matching the remuneration of asset and liability items. The majority of assets and liabilities consist of euro-denominated instruments with an interest rate tied to a reference interest rate (the Euribor), and the Bank thus remains exposed solely to the mismatches in the repricing periods and incomplete matching in the choice of reference interest rate (3-month or 6-month Euribor).

Breakdown of financial assets and financial liabilities by exposure to interest rate risk as at 31 December 2013

SID Bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Unremunerated items	Total
Financial assets	**519,302**	**736,906**	**2,347,808**	**118,799**	**48,602**	**3,771,417**	**2,789**	**3,774,206**
Balances in accounts at central bank	177,416	-	-	-	-	177,416	-	177,416
Financial assets held for trading	-	-	-	-	-	-	-	-
Available-for-sale financial assets	25,126	56,824	143,026	103,031	14,251	342,258	2,175	344,433
Loans	316,760	680,082	2,168,687	15,768	34,351	3,215,648	614	3,216,262
Loans to banks	122,432	568,356	1,891,179	14,251	18,286	2,614,504	-	2,614,504
Loans to non-banking clients	194,328	111,726	277,508	1,513	16,061	601,136	-	601,136
Other financial assets	-	-	-	4	4	8	614	622
Derivatives used for hedging	-	-	36,095	-	-	36,095	-	36,095
Financial liabilities	**462,367**	**598,041**	**1,526,292**	**726,971**	**117,377**	**3,431,048**	**1,503**	**3,432,551**
Financial liabilities to central bank	207,742	-	-	-	-	207,742	-	207,742
Financial liabilities held for trading	-	-	17	-	-	17	-	17
Financial liabilities measured at amortised cost	254,625	597,912	1,526,275	726,971	117,377	3,223,160	1,503	3,224,663
Deposits and borrowings from banks	182,006	196,046	1,237,424	-	-	1,615,476	-	1,615,476
Deposits and borrowings from non-banking clients	72,619	200,232	137,834	-	62,286	472,971	-	472,971
Debt securities	-	201,634	151,017	726,971	55,091	1,134,713	-	1,134,713
Other financial liabilities	-	-	-	-	-	-	1,503	1,503
Derivatives held for hedging	-	129	-	-	-	129	-	129
Interest rate gap as at 31 December 2013	**56,935**	**138,865**	**821,516**	**(608,172)**	**(68,775)**	**340,369**	**1,286**	**341,655**
Financial assets as at 31 Dec 2012	285,558	787,572	2,754,331	178,562	62,458	4,068,481	683	4,069,165
Financial liabilities as at 31 Dec 2012	424,583	420,757	1,547,388	1,218,354	121,266	3,732,349	1,171	3,733,520
Interest sensitivity gap as at 31 December 2012	**(139,025)**	**366,815**	**1,206,943**	**(1,039,792)**	**(58,808)**	**336,133**	**(488)**	**335,645**

SID Bank Group	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total remunerated items	Unremunerated items	Total
Financial assets	**595,497**	**753,889**	**2,354,238**	**124,681**	**52,612**	**3,880,917**	**17,767**	**3,898,683**
Balances in accounts at central bank	177,416	-	-	-		177,416	1	177,417
Financial assets held for trading	-	-	-	-		-	-	-
Available-for-sale financial assets	26,224	60,239	149,270	108,773	18,261	362,767	7,363	370,130
Loans	391,857	693,650	2,168,873	15,908	34,351	3,304,639	10,403	3,315,041
Loans to banks	131,644	574,827	1,891,848	14,251	18,286	2,630,856	246	2,631,102
Loans to non-banking clients	260,045	118,488	276,746	1,513	16,061	672,853	9,360	682,213
Other financial assets	167	335	279	144	4	930	797	1,727
Derivatives used for hedging	-	-	36,095	-	-	36,095	-	36,095
Financial liabilities	**507,119**	**629,373**	**1,532,613**	**726,971**	**117,377**	**3,513,453**	**3,751**	**3,517,204**
Financial liabilities to central bank	207,742	-	-	-	-	207,742	-	207,742
Financial liabilities held for trading	-	-	17	-	-	17	-	17
Financial liabilities measured at amortised cost	299,377	629,244	1,532,596	726,971	117,377	3,305,565	3,751	3,309,316
Deposits and borrowings from banks	226,758	227,378	1,243,745	-	-	1,697,881	759	1,698,640
Deposits and borrowings from non-banking clients	72,619	200,232	137,834	-	62,286	472,971	-	472,971
Debt securities	-	201,634	151,017	726,971	55,091	1,134,713	-	1,134,713
Other financial liabilities	-	-	-	-	-	-	2,992	2,992
Derivatives held for hedging	-	129	-	-	-	129	-	129
Interest rate gap as at 31 December 2013	**88,378**	**124,516**	**821,625**	**(602,290)**	**(64,765)**	**367,464**	**14,016**	**381,480**
Financial assets as at 31 December 2012	377,152	812,694	2,751,472	184,825	64,838	4,190,982	19,471	4210,453
Financial liabilities as at 31 December 2012	482,163	460,985	1,554,311	1,218,355	121,266	3,837,080	3,786	3,840,865
Interest rate gap as at 31 December 2012	**(105,011)**	**351,710**	**1,197,161**	**(1,033,530)**	**(56,428)**	**353,902**	**15,685**	**369,587**

Sensitivity Analysis

SID Bank and the SID Bank Group conduct analysis of the sensitivity of remunerated assets and liabilities to changes in interest rates.

Analysis of the sensitivity of interest-sensitive asset and liability items is made under the assumption of a change of 100 basis points in market interest rates. The impact on net interest income in the first year of the change is calculated.

Were market interest rates to rise by 100 basis points, SID Bank's net interest income in 2014 would increase by EUR 2,835 thousand (compared with EUR 2,411 thousand in 2013). The change would be reflected in higher income in the income statement. Were market interest rates to fall by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

Were market interest rates to rise by 100 basis points, the SID Bank Group's net interest income in 2014 would increase by EUR 3,017 thousand (compared with EUR 2,754 thousand in 2012). The change would be reflected in higher income in the income statement. Were market interest rates to fall by 100 basis points, the changes would be of the same magnitude as after a rise in interest rates, but in the opposite direction. For larger or smaller changes in market interest rates, the results have been calculated proportionately.

The sensitivity analysis is also made for the risk of the change in the price of SID Bank's debt securities. Were prices of debt securities to rise by 100 basis points, the equity revaluation adjustments would increase by EUR 3,422 thousand, and were such prices to drop by 100 basis points, the equity revaluation adjustments would decrease in the same amount.

3.4 Currency Risk

Currency risk is the risk of a loss arising from adverse changes in exchange rates.

In the management of currency risk SID Bank determines the potential loss that would arise as a result of a change in exchange rates by means of the open foreign exchange position, which is the difference between the sums of all assets and liabilities in foreign currencies. Internal limits are placed on the open foreign exchange position, and it was minimal throughout 2013.

Transactions executed by SID Bank and the SID Bank Group in foreign currencies are not materially significant, and this currency risk is also not of material significance. Given the lack of material significance, analysis of currency sensitivity is not disclosed.

The SID Bank Group ties fiduciary cession advances to the euro, in order to neutralise as far as possible the effect of changes in exchange rates on debts expressed in euros. In insurance operations the SID Bank Group matches the currency breakdown of its assets covering technical provisions with the currency structure of the exposure to the largest possible extent.

Breakdown of financial assets and financial liabilities by currency as at 31 December 2013

	SID Bank				SID Bank Group			
	EUR	USD	Other currencies	Total	EUR	USD	Other currencies	Total
Financial assets	**3,740,297**	**33,909**	**-**	**3,774,206**	**3,858,106**	**33,910**	**6,667**	**3,898,683**
Balances in accounts at central bank	177,416	-	-	177,416	177,416	-	1	177,417
Financial assets held for trading	-	-	-	-	-	-	-	-
Available-for-sale financial assets	343,444	989	-	344,433	369,141	989	-	370,130
Loans	3,183,342	32,920	-	3,216,262	3,275,454	32,921	6,666	3,315,040
Loans to banks	2,581,674	32,830	-	2,614,504	2,596,515	32,831	1,755	2,631,102
Loans to non-banking clients	601,046	90	-	601,136	677,494	90	4,628	682,212
Other financial assets	622	-	-	622	1,444	-	283	1,727
Derivatives used for hedging	36,095	-	-	36,095	36,095	-	-	36,095
Financial liabilities	**3,398,940**	**33,611**	**-**	**3,432,551**	**3,482,444**	**33,612**	**1,147**	**3,517,204**
Financial liabilities to central bank	207,742	-	-	207,742	207,742	-	-	207,742
Financial liabilities held for trading	17	-	-	17	17	-	-	17
Financial liabilities measured at amortised cost	3,191,052	33,611	-	3,224,663	3,274,556	33,612	1,147	3,309,316
Deposits and borrowings from banks	1,581,865	33,611	-	1,615,476	1,664,109	33,611	919	1,698,640
Deposits and borrowings from non-banking clients	472,971	-	-	472,971	472,971	-	-	472,971
Debt securities	1,134,713	-	-	1,134,713	1,134,713	-	-	1,134,713
Other financial liabilities	1,503	-	-	1,503	2,763	1	228	2,992
Derivatives held for hedging	129	-	-	129	129	-	-	129
Net on-balance sheet position as at 31 Dec 2013	**341,357**	**298**	**-**	**341,655**	**375,662**	**298**	**5,519**	**381,479**
Assumed irrevocable commitments	**34,467**	**-**	**20,396**	**54,863**	**34,919**	**-**	**20,396**	**55,315**
Financial assets as at 31 Dec 2012	4,053,576	15,588	0	4,069,165	4,183,535	15,589	11,328	4,210,453
Financial liabilities as at 31 Dec 2012	3,718,346	15,174	0	3,733,520	3,822,669	15,174	3,023	3,840,866
Net on-balance-sheet position as at 31 Dec 2012	**335,230**	**414**	**0**	**335,645**	**360,866**	**415**	**8,306**	**369,587**
Assumed irrevocable commitments as at 31 Dec 2012	79,645	0	21,187	100,833	80,160	0	21,187	101,347

3.5 Operational Risk

Operational risk arises as a result of inadequate or failed internal processes, people and systems or from external events, and depends on internal organisation, the management of business processes, the functioning of internal controls, the effectiveness of internal and external auditing, etc.

Operational risk factors include personnel, business processes, information technology and other infrastructure, organisational arrangements and external events.

The expansion in SID Bank's role as Slovenia's primary financial institution concerned with promotional development, its increase in turnover and the gradual increase in the complexity of its products and processes have increased operational risk. The new tasks envisaged must be followed by recruitment of the right high-quality personnel and the introduction of new information technologies to provide proper data and applications support.

The Bank uses a basic indicator approach to monitor operational risk. Management of operational risk is based on the established system of internal controls, the system of decision-making and powers, proper replacements during absences, the right training for personnel, and investment in information technology. The systemic risks entailed by information technology, which are increasing as the level of computerisation increases, have been managed by additional measures such as the business continuity plan put in place, the duplication of server infrastructure and other measures to increase information security (systems to prevent penetrations, systems for detecting penetrations, surveillance systems).

3.6 Capital Management

SID Bank and the SID Bank Group must always have adequate capital at their disposal as a reserve against the various risks that they are exposed to in their operations. This is a continuous process of determining and maintaining the amount and quality of capital that is adequate, taking account of the risks defined in the capital management policy.

Capital risk refers to unsuitable structure of capital in terms of the volume and method of operation, or to the problems faced by the Bank while obtaining fresh capital, especially when a quick increase is required or under adverse conditions in the business environment.

The Supervisory Board's role in the capital and capital risk management is to estimate the suitability of the Capital Risk Management Policy and to assess the implementation of such policy. The Management Board's task is to adopt a suitable capital management policy, to ensure the adequate volume and quality of capital, and to meet the regulator's capital requirements.

The calculation of the SID Bank Group's capital adequacy is based on the consolidated financial statements. Under the Decision regulating the supervision of banks and savings banks on a consolidated basis, insurance corporations are not included in consolidated financial statements, and joint ventures are accounted using proportionate consolidation. SID Bank and the Prvi faktor Group are included in consolidation on the basis of the aforementioned decision, the latter using proportionate consolidation.

Capital for Capital Adequacy Purposes

Capital and capital adequacy are monitored in accordance with the guidelines of the Basel Committee and EU directives, and have been incorporated into Bank of Slovenia regulations.

The Decision regulating the calculation of the own funds of banks and savings banks gives detailed definitions of minimum capital and the attributes of individual capital components, ratios and constraints, the conditions for obtaining authorisation to include specific financial instruments, the method and period in which they are coordinated, and deductions in the calculation of capital.

A bank's capital is divided into three categories with regard to its attributes and the requirements: original own funds (Tier 1), additional own funds I (Tier 2) and additional own funds II. Capital is calculated as the sum of all three categories, the deductions from individual categories, the ratios between the individual categories and the purpose of the individual categories being taken into account.

SID Bank and the SID Bank Group use the standardised approach to calculate the capital requirements for credit risk, and a basic indicator approach to calculate the capital requirements for operational risks.

Participating interests in insurance corporations are deducted from original own funds and additional own funds I. This yields the regulatory capital figure, which is subsequently used to determine capital adequacy, the calculation of which is based on the inclusion of the capital requirements for credit risk and operational risk.

Capital components and capital adequacy ratio for SID Bank and the SID Bank Group

	SID Bank		SID Bank Group	
	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Original own funds (TIER 1)	343,410	338,730	354,568	344,978
Share capital	300,000	300,000	300,000	300,000
(-) Own shares held in treasury	*(1,324)*	*(1,324)*	*(1,324)*	*(1,324)*
Share premium account	1,139	1,139	1,139	1,139
Profit reserves and retained earnings	44,272	39,407	55,446	46,167
Revaluation surplus – prudential filters	0	0	0	0
Deductions from original own funds	(677)	(491)	(692)	(1,003)
(-) Intangible assets	*(677)*	*(491)*	*(692)*	*(1,003)*
Additional own funds I (TIER 2)	0	10	0	10
Revaluation surplus in connection with available-for-sale financial assets – shares, participating interests	0	10	0	10
Deductions from original own funds and additional own funds I	(8,413)	(11,500)	(8,413)	(8,412)
Total capital for capital adequacy purposes	344,997	327,239	346,156	336,575
Capital requirements	162,567	183,996	171,811	194,656
Capital adequacy ratio (%)	**16.49**	**14.23**	**16.12**	**13.83**

Breakdown of capital requirements by type of risk

	SID Bank				SID Bank Group			
	2013	Breakdown, %	2012	Breakdown, %	2013	Breakdown,%	2012	Breakdown, %
Capital requirements								
- for credit risk	152,757	94.0	177,381	96.4	159,803	93.0	186,745	95.9
- for operational risk	9,809	6.0	6,615	3.6	11,046	6.4	7,911	4.1
- for currency risk	0	0.0	0	0.0	961	0.6	0	0.0
Total	**162,567**	**100**	**183,996**	**100**	**171,811**	**100**	**194,656**	**100**

Capital requirements for credit risk

	SID Bank		SID Bank Group	
Exposure class	31 Dec 2013	31 Dec 2012	31 Dec 2013	31 Dec 2012
Central governments or central banks	3	5	86	299
Regional governments or local authorities	926	394	987	544
Public sector entities	996	1,044	1,009	1,048
Institutions	102,742	120,312	103,047	121,476
Corporates	42,910	51,567	48,514	58,297
Past-due items	4,682	3,406	5,220	4,074
Regulatory high-risk items	0	256	286	513
Covered bonds	42	76	42	76
Exposures in the form of collective investment undertakings	0	11	0	11
Other exposures	456	310	611	409
Total	**152,757**	**177,381**	**159,803**	**186,745**

In both of the years illustrated, SID Bank maintained its capital adequacy above the regulatory prescribed minimum of 8%. In 2013 regulatory capital (capital for the purpose of the capital adequacy calculation) was increased by the net profit for the financial year and due to a decrease in deductions. The capital requirements for credit risk decreased by 13.9%, or EUR 24,624 thousand in absolute terms. The largest decrease in absolute terms was recorded by the exposure class of institution. The capital requirements for operational risks increased in 2013 as a result of the increase in income in the last three years prior 2013, for which the capital requirement was calculated. Under the Decision regulating the reporting of the capital and capital requirements of banks and savings banks, there was no need to formulate capital requirements for currency risk at the end of the year.

Internal Capital Assessment

SID Bank annually assesses its risk profile, which comprises a documented and categorized collection of quantitative and qualitative assessments of the risks that a bank takes up within the framework of its operations and the control environment with which it manages these risks.

The risk profile represents a basis for the integral risk management process, the internal capital adequacy assessment process, the planning of internal audit procedures, and direct supervision by the Bank of Slovenia.

The risk profile is assessed for the entire SID Bank Group under the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for banks and savings banks and the Regulation on Supervision of Banks and Savings Banks on a Consolidated Basis.

The internal capital adequacy assessment process takes account of risks included in the first pillar (credit risk, market risk, operational risk), risks under the second pillar (concentration risk, transfer risk, interest rate risk, liquidity risk, profitability risk, settlement risk, reputation risk, strategic risk, capital risk), and other elements and factors of the external environment (regulatory changes, the impact of economic cycles, stress tests). With regard to external environment factors, SID Bank assessed the needed capital related to stress tests in the amount of the unsecured part of all those receivables, which are more than 90 days in arrears and for which SID Bank has no impairments formed.

Internal Capital Needs Assessment

	SID Bank and SID Bank Group	
EUR millions	31 Dec 2013	v %
Capital requirements		
- for credit risk	160	78,8
- for operational risk	11	5,4
- for currency risk	0	0
Capital needs		
- for interest rate risk	3	1,5
- for concentration risk	22	10,8
- for strategic risk	7	3,5
- for external factors	0	0
Internal capital needs assessment	**203**	**100**

The internal capital needs assessment stood at EUR 203 million as at 31 December 2013. The capital requirements for credit risk accounted for 78.8% of the internal capital needs assessment, the capital requirements for operational risks for 5.4%, and the capital requirements for interest rate risk, concentration risk, and strategic risk and for external factors accounted for 15.8%.

3.7 Fair Values of Financial Assets and Liabilities

Fair price is the price, which would be obtained when selling an asset or paid for the transfer of liabilities in a regular transaction with participants on the market at the observed date under current market conditions, regardless whether the price may be directly measured or evaluated by using another valuation technique.

Fair values of financial assets and financial liabilities, which are traded on active markets, based on declared market prices. For other financial instruments, the SID Bank and the SID Bank Group determine the fair value by using other valuation techniques.

An active market is a market, where transactions of assets or liabilities are frequently carried out, so as to ensure public information on prices.

The SID Bank and the SID Bank Group measure fair value with the use of hierarchy of fair values, which reflects the importance of using the adequate inputs.

– Level 1: prices quoted at active markets for identical assets or liabilities, which SID Bank and the SID Bank Group have access to at the observed date.

- Level 2: inputs, which are not prices quoted included at Level 1, and may be directly (prices) or indirectly (derived from prices) observed for an asset or liability. For SID Bank and the SID Bank Group Level 2 includes financial instruments valued by using: prices quoted for similar assets and liabilities on active markets, prices quoted for identical or similar assets and liabilities on inactive markets or inputs, which are not prices quoted and may be observed for assets or liabilities, such as interest rates and yield curves.

- Level 3: SID Bank and the SID Bank Group include in this category financial instruments for which they calculate fair value according to the model that mostly uses unobservable inputs.

Observable inputs are developed based on market information, such as publicly available information on actual events or transactions. Unobservable inputs are inputs for which market information is not available and develop by using the best disposable information on assumptions , which the market participants would use in determining the price of assets or liabilities.

Financial assets measured at fair value

Financial instruments, which the SID Bank and the SID Bank Group presents according to fair value in its statement of financial position are financial assets and liabilities intended for trading, available-for-sale financial assets and derivatives used for hedging.

Financial assets and liabilities for trading and derivatives used for hedging, which include interest rate swaps, are valued by acknowledging market interest rates and yield curves.

Fair value of available-for-sale financial assets is determined by prices quoted on active markets for identical assets, by prices quoted for similar assets and by prices quoted for identical or similar assets on inactive markets.

Financial instruments measured at fair value – fair value hierarchy

The table shows financial instruments measured at fair value on reporting date with regard to the hierarchical level in which they are placed.

	SID Bank					
	31 Dec 2013			31 Dec 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets measured at fair value						
Financial assets for trading	0	0	0	0	1	1
Available-for-sale financial assets	337,221	7,212	344,433	299,190	10,565	309,755
- debt securities	*337,221*	*5,037*	*342,258*	*299,055*	*10,565*	*309,620*
- equities	*0*	*2,175*	*2,175*	*135*	*0*	*135*
Derivatives used for hedging	0	36,095	36,095	0	78,003	78,003
Total financial assets	337,221	43,307	380,528	299,190	88,569	387,759
Financial liabilities measured at fair value						
Financial liabilities for trading	0	17	17	0	44	44
Derivatives used for hedging	0	129	129	0	0	0
Total financial liabilities	0	146	146	0	44	44

	SID Bank Group					
	31 Dec 2013			31 Dec 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets measured at fair value						
Financial assets for trading	0	0	0	0	1	1
Available-for-sale financial assets	362,917	7212	370,129	323,289	10,565	333,854
- debt securities	357,729	5,037	362,766	*315,952*	*10,565*	*326,517*
- equities	5,188	2,175	7,363	*7,337*	*0*	*7,337*
Derivatives used for hedging	0	36,095	36,095	0	78,003	78,003
Total financial assets	362,917	43,307	406,224	323,289	88,569	411,858
Financial assets measured at fair value						
Financial liabilities for trading	0	17	17	0	44	44
Derivatives used for hedging	0	129	129	0	0	0
Total financial liabilities	0	146	146	0	44	44

Financial instruments not measured at fair value

The table shows fair values of financial instruments not measured at fair value and analyses them in terms of their hierarchical level of fair value in which they are placed.

	31 Dec 2013							
	SID Bank				SID Bank Group			
	Level 2	Level 3	Fair value	Carrying amount	Level 2	Level 3	Fair value	Carrying amount
Cash-in-hand and balances in accounts at central bank	177,416	0	177,416	177,416	177,417	0	177,417	177,417
Loans	2,618,148	*603,091*	3,221,964	3,216,262	2,636,577	684,139	3,320,715	3,315,041
- loans to banks	2,618148	0	2,618148	2,614,504	2,634,747	0	2,634,747	2,631,103
- loans to non-banking clients	0	603,091	603,091	601,136	0	684,139	684,139	682,212
- other financial assets	725	0	725	622	1,830	0	1,830	1,726
Total financial assets	**2,796,289**	**603,091**	**3,399,380**	**3,393,678**	**2,813,994**	**684,139**	**3,498,132**	**3,492,458**
Financial liabilities to central bank	207,742	0	207,742	207,742	207,742	0	207,742	207,742
Financial liabilities measured at amortised cost	2,090,936	*1,134,713*	3,225,649	3,224,663	2,175,561	1,134,713	3,310,274	3,309,316
- deposits from banks	40,497	0	40,497	40,497	40,497	0	40,497	40,497
- deposits from non-banking clients	6	0	6	6	6	0	6	6
- borrowings from banks	1,575,729	0	1,575,729	1,574,979	1,658,864	0	1,658,864	1,658,142
- borrowings from non-banking clients	473,201	0	473,201	472,965	473,201	0	473,201	472,965
- debt securities	0	1,134,713	1,134,713	1,134,713	0	1,134,713	1,134,713	1,134,713
-other financial liabilities	1,503	0	1,503	1,503	2,993	0	2,993	2,993
Total financial liabilities	**2,298,678**	**1,134,713**	**3,433,391**	**3,432,405**	**2,383,303**	**1,134,713**	**3,518,016**	**3,517,058**

For carrying amounts of money, it is assumed that they are almost the same as its fair value.

For fair values of variable interest rate loans, where credit risk does not significantly change, we use market interest rates. In view that the credit portfolio consists only of 1.6% of loans with a fixed interest rate, the SID Bank and SID Bank Group estimate that there are no material differences between the fair value of loans and their carrying amounts.

Fair value of financial liabilities according to the variable interest rate is about the same as their carrying amount on the reporting date. The SID Bank and the SID Bank Group do not have financial liabilities with a fixed interest rate, so we used market interest rates for the calculation of fair value.

SID Bank and the SID Bank Group recognizes and measures issued debt securities and loans at their amortised cost. For instruments, which are included in hedging for the purpose of calculating hedging effects, the fair value is calculated by using the valuation technique, namely the expected present value. The expected present value is calculated using inputs, which are not prices quoted and can be observed; that is interest rates and yield curves.

4 Segment Reporting

Allocation and disclosure by operating segment is carried out on the basis of the attributes of individual business activities at the SID Bank Group. The disclosure of information by operating segment takes account of supervisory approaches and the content of reports that serve the Bank's management in the governance of the SID Bank Group. Performance across the operating segments is monitored on the basis of the accounting policy as presented in point 2.3.26. The reports are compiled in accordance with the IFRS. The majority of the SID Bank Group's operations are on the domestic market, for which reason the Group does not disclose additional itemization by geographical segments.

The SID Bank Group business activities can be divided into three operating segments:
- banking,
- credit and investment insurance, and
- factoring.

Each operating segment is organised as a legal entity in the form of an independent undertaking. Within the SID Bank Group banking services are provided by the controlling company SID Bank credit and investment insurance is carried out at PKZ, and factoring is the domain of the Prvi faktor Group. The factoring segment includes 50% proportionate share of the Prvi faktor Group. The individual operating segments include products and services that differ from the other operating segments in terms of risk and return. Transactions between the operating segments are executed at normal commercial terms.

Analysis by operating segment

2013	Banking	Credit and investment insurance	Factoring	Total	Mutual relations	Relations to third parties
Interest income	117,832	719	9,806	128,357	(2,058)	126,299
Interest expenses	(65,288)	(21)	(6,798)	(72,107)	2,129	(69,978)
Net interest income	**52,544**	**698**	**3,008**	**56,250**	**71**	**56,321**
Dividend income	1,422	0	0	1,422	(1,422)	0
Fee and commission income	3,017	0	3,824	6,841	(42)	6,799
Fee and commission expenses	(626)	(14)	(606)	(1,246)	153	(1,093)
Net fee and commission income	**2,391**	**(14)**	**3,218**	**5,595**	**111**	**5,706**
Gains/losses on financial assets and liabilities not measured at fair value through profit and loss	15,568	1	0	15,569	0	15,569
Net gains/losses on financial assets and liabilities held for trading	26	0	(8)	18	0	18
Gains/losses on financial assets and (liabilities) measured at fair value through profit or loss	1,579	0	0	1,579	0	1,579
Changes in fair value in hedge accounting	1,053	0	0	1,053	0	1,053
Net foreign exchange gain/loss	(4)	0	(315)	(319)	0	(319)
Net gains/losses on derecognition of assets other than non-current assets held for sale	0	0	6	6	0	6
Other net operating profit/loss	2,032	7,358	(245)	9,145	(116)	9,029
NET INCOME/EXPENSES	**76,611**	**8,043**	**5,664**	**90,318**	**(1,356)**	**88,962**
Other information by segments	**(70,911)**	**(4,614)**	**(18,226)**	**(93,751)**	**18,315**	**(75,436)**
Administrative costs	(8,781)	(3,653)	(3,133)	(15,567)	5	(15,562)
Amortisation and depreciation	(589)	(356)	(78)	(1,023)	0	(1,023)
Provisioning	6,454	250	0	6,704	0	6,704
Impairments	(67,995)	(855)	(15,015)	(83,865)	18,310	(65,555)
Profit/loss from ordinary operations	**5,700**	**3,429**	**(12,562)**	**(3,433)**	**16,959**	**13,526**
Corporate income tax on ordinary operations	(1,344)	(707)	(647)	(2,698)	0	(2,698)
Deferred taxes	509	4	(1,346)	(833)	0	(833)
Net profit/loss for the financial year	**4,865**	**2,726**	**(14,555)**	**(6,964)**	**16,959**	**9,995**
ASSETS AND LIABILITIES						
Total assets	**3,787,565**	**65,852**	**120,551**	**3,973,968**	**(34,393)**	**3,939,575**
- long-term interests in subsidiaries, associates and joint ventures	8,831	0	0	8,831	(8,412)	419
Liabilities (other than equity) by segment	**3,441,772**	**40,442**	**130,701**	**3,612,915**	**(47,303)**	**3,565,612**
Total equity	**345,793**	**25,410**	**(10,151)**	**361,052**	**12,911**	**373,963**
Increase/decrease in property, plant and equipment and intangible assets	(154)	(283)	4	(433)	(488)	(921)

The column "mutual relations" presents the total income and expenses of the SID Bank Group companies, as well as dividend income of subsidiary, impairments of loans to SID Bank Group companies, and the impairment of investment in Prvi faktor Ljubljana, investments in subsidiaries and joint venture, receivables and liabilities between SID Bank Group companies, and other consolidation entries.

2012	Banking	Credit and investment insurance	Factoring	Total	Mutual relations	Relations to third parties
Interest income	156,562	867	11,768	169,197	(2,461)	166,736
Interest expenses	(93,420)	(37)	(8,666)	(102,123)	2,461	(99,662)
Net interest income	**63,142**	**830**	**3,102**	67,074	**0**	**67,074**
Dividend income	1,632	0	352	1,984	(1,632)	352
Fee and commission income	1,819	0	4,233	6,052	(70)	5,982
Fee and commission expenses	(706)	(13)	(873)	(1,592)	259	(1,333)
Net fee and commission income	**1,113**	**(13)**	**3,360**	4,460	**189**	**4,649**
Gains/losses on financial assets and liabilities not measured at fair value through profit and loss	1,689	109	0	1,798	0	1,798
Net gains/losses on financial assets and liabilities held for trading	(11)	0	(8)	(19)	0	(19)
Gains/losses on financial assets and (liabilities) measured at fair value through profit or loss	21,072	0	0	21,072	0	21,072
Changes in fair value in hedge accounting	2,648	0	0	2,648	0	2,648
Net foreign exchange gain/loss	(5)	(2)	843	836	0	836
Net gains/losses on derecognition of assets other than non-current assets held for sale	(1)	0	(41)	(42)	0	(42)
Other net operating profit/loss	2,221	4,934	(269)	6,886	(194)	6,692
NET INCOME/EXPENSES	**93,500**	**5,858**	**7,339**	**106,697**	**(1,637)**	**105,060**
Other information by segments	**(87,638)**	**(2,595)**	**(5,954)**	**(96,187)**	**185**	**(96,002)**
Administrative costs	(7,585)	(3,387)	(3,149)	(14,121)	5	(14,116)
Amortisation and depreciation	(575)	(323)	(111)	(1,009)	0	(1,009)
Provisioning	(10,095)	1,374	0	(8,721)	0	(8,721)
Impairments	(69,383)	(259)	(2,694)	(72,336)	180	(72,156)
Profit/loss from ordinary operations	**5,862**	**3,263**	**1,385**	**10,510**	**(1,452)**	**9,058**
Corporate income tax on ordinary operations	(588)	(551)	(876)	(2,015)	0	(2,015)
Deferred taxes	(233)	(23)	36	(220)	0	(220)
Net profit/loss for the financial year	**5,041**	**2,689**	**545**	**8,275**	**(1,452)**	**6,823**
ASSETS AND LIABILITIES						
Total assets	**4,088,662**	**65,398**	**157,519**	**4,311,579**	**(52,767)**	**4,258,812**
- long-term interests in subsidiaries, associates and joint ventures	11,919	0	0	11,919	(11,500)	419
Liabilities (other than equity) by segment	**3,748,438**	**41,340**	**153,158**	**3,942,936**	**(47,299)**	**3,895,637**
Total equity	**340,224**	**24,058**	**4,361**	**368,643**	**(5,468)**	**363,175**
Increase/decrease in property, plant and equipment and intangible assets	40	1,007	(45)	1,002	0	1,002

The column "mutual relations" presents the total income and expenses of the SID Bank Group companies, as well as dividend income of subsidiary, impairments of loans to SID Bank Group companies, investments in subsidiaries and joint venture, receivables and liabilities between SID Bank Group companies, and other consolidation entries.

APPENDICES

1 Operations on Behalf of and for the Account of the Republic of Slovenia

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

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

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

31 Dec 2013	Insurance on behalf of and for the account of the Republic of Slovenia	Interest Rate Equalisation Programme	Total
Assets			
Cash in transaction accounts	65	2	67
Receivables from financial instruments	144,100	8,031	152,131
- loans	*56,707*	*1,501*	*58,208*
- available-for-sale financial assets	*76,124*	*6,496*	*82,620*
- other	*11,269*	*34*	*11,303*
Total assets	**144,165**	**8,033**	**152,198**
Liabilities			
Liabilities to clients from cash and financial instruments	144,165	8,033	152,198
Total liabilities	**144,165**	**8,033**	**152,198**
Memorandum account for brokerage	**682,788**	**3,983**	**686,771**

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

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

2 Additional Disclosures on the Basis of the Decision Regulating Disclosures by Banks and Savings Banks

The disclosures regulated by the Decision regulating disclosures by banks and savings banks (hereinafter: the Decision regulating disclosures) that are not included in the previous sections of the annual report are presented below.

SID Bank has the position of an EU parent bank under capital legislation, for which reason it is obliged to publish disclosures under the aforementioned Decision on the basis of the consolidated financial position.

SID Bank and the Prvi faktor Group are included in consolidation under the Decision regulating the supervision of banks and savings banks on a consolidated basis (banking consolidation), the latter using proportionate consolidation (50%). The Pro Kolekt Group and the CMSR have been excluded from consolidation, because their balance sheet totals amount to less than 1% of SID Bank's balance sheet total, and their revenues to less than 1% of SID Bank's revenue. The investment in the Pro Kolekt Group is also not classed as a deduction against the capital of SID Bank as a banking group. Under the IFRS, the SID Bank Group's consolidated financial statements include, in addition to SID Bank, the insurance corporation PKZ under the full consolidation method, and the Prvi faktor Group under the proportionate consolidation method. Banking consolidation and accounting consolidation therefore differ in that the latter includes PKZ settlement of liabilities between the parent undertaking and its subsidiaries.

In the SID Bank banking group there are no impediments to the transfer of capital or to the settlement of liabilities between the parent undertaking and its subsidiaries.

All the SID Bank Group subsidiaries that are not included in consolidation under the Decision regulating the supervision of banks and savings banks on a consolidated basis meet the required minimum capital. The overall shortfall in capital is zero.

2.1. Total Exposure Amount Minus Impairments and Provisions Excluding Credit Protection Effects, and Average Exposure Amount in Reporting Period Broken Down by Exposure Class

(Article 15c of the Decision regulating disclosures)

Exposure class	Balance as at 31 Dec 2013	Average 2013	Balance as at 31 Dec 2012	Average 2012
Central governments and central banks	412,202	331,703	203,993	192,126
Regional governments or local authorities	24,108	15,778	11,760	4,348
Public sector entities	38,059	39,852	41,138	37,508
Multilateral development banks	12,071	12,262	12,516	9,859
International organisations	7,423	7,460	7,642	7,504
Institutions	2,737,465	2,991,472	3,188,529	3,268,020
Corporates	615,311	690,641	734,732	750,628
Past-due items	48,271	40,706	48,622	54,286
Regulatory high-risk exposures	3,007	5,173	5,949	5,469
Covered bonds	2,639	3,908	4,726	4,307
Investments in collective investment undertakings	0	113	135	136
Other exposures	7,638	6,544	5,111	4,845
Total	3,908,193	4,145,612	4,264,853	4,339,036

2.2. Breakdown of Exposures by Major Geographical Region Itemised into Major Exposure Classes

(Article 15d of the Decision regulating disclosures)

2013 Exposure class	Slovenia	Other EU members	SE Europe (excluding EU members)	Other countries	Total
Central governments and central banks	392,139	75,302	1,038	0	468,479
Regional governments or local authorities	23,533	4	571	0	24,108
Public sector entities	25,052	10,213	87	0	35,352
Multilateral development banks	0	12,071	0	0	12,071
International organisations	0	7,423	0	0	7,423
Institutions	2,283,715	410,013	12,652	2,128	2,708,509
Corporates	428,753	12,343	149,233	1,728	592,058
Past-due items	42,898	31	3,981	0	46,910
Regulatory high-risk exposures	604	0	2,403	0	3,007
Covered bonds	0	2,639	0	0	2,639
Other exposures	7,636	0	2	0	7,638
Total	3,204,330	530,039	169,968	3,856	3,908,193

2012 Exposure class	Slovenia	Other EU members	SE Europe (excluding EU members)	Other countries	Total
Central governments and central banks	147,499	52,831	3,664	0	203,993
Regional governments or local authorities	10,101	11	1,648	0	11,760
Public sector entities	29,749	11,351	38	0	41,138
Multilateral development banks	0	12,516	0	0	12,516
International organisations	0	7,642	0	0	7,642
Institutions	2,916,825	235,388	28,335	7,981	3,188,530
Corporates	527,482	19,726	176,858	10,666	734,732
Past-due items	43,857	29	4,736	0	48,622
Regulatory high-risk exposures	3,864	0	2,085	0	5,950
Covered bonds	0	4,726	0	0	4,726
Investments in collective investment undertakings	135	0	0	0	135
Other exposures	5,109	0	2	0	5,111
Total	3,684,621	344,220	217,364	18,648	4,264,853

2.3. Breakdown of Exposures by Economic Sector or Type of Client Itemised into Major Exposure Classes

(Article 15e of the Decision regulating disclosures)

2013 Exposure class	Financial and insurance activities	Public administration and defence; compulsory social security	Manufacturing	Wholesale and retail trade; maintenance and repair of motor vehicles	Transportation and storage	Other	Total
Central governments and central banks	177,416	291,048	0	0	15	0	468,479
Regional governments or local authorities	0	23,756	0	0	0	352	24,108
Public sector entities	0	24,908	0	0	1	10,443	35,352
Multilateral development banks	12,071	0	0	0	0	0	12,071
International organisations	0	0	0	0	0	7,423	7,423
Institutions	2,700,509	0	0	0	0	8,000	2,708,509
Corporates	62,482	3	240,326	153,090	42,875	93,281	592,058
Past-due items	0	427	34,810	1,587	598	9,488	46,910
Regulatory high-risk exposures	246	0	770	1,334	0	657	3,007
Covered bonds	2,639	0	0	0	0	0	2,639
Other exposures	2,379	0	0	0	0	5,259	7,638
Total	2,957,742	340,142	275,906	156,011	43,489	134,903	3,908,193

2012 Exposure class	Financial and insurance activities	Public administration and defence; compulsory social security	Manufacturing	Wholesale and retail trade; maintenance and repair of motor vehicles	Transportation and storage	Other	Total
Central governments and central banks	408	257,159	0	0	0	585	258,151
Regional governments or local authorities	0	10,908	0	0	0	852	11,760
Public sector entities	0	26,112	0	0	0	11,411	37,523
Multilateral development banks	12,516	0	0	0	0	0	12,516
International organisations	0	0	0	0	0	7,642	7,642
Institutions	3,156,373	0	0	0	0	3	3,156,376
Corporates	88,608	4	292,736	170,668	50,043	114,460	716,520
Past-due items	0	643	31,370	1,824	740	13,870	48,446
Regulatory high-risk exposures	245	0	567	1,233	0	3,902	5,947
Covered bonds	4,726	0	0	0	0	0	4,726
Investments in collective investment undertakings	135	0	0	0	0	0	135
Other exposures	208	0	0	0	0	4,904	5,111
Total	3,263,218	294,826	324,673	173,725	50,783	157,628	4,264,853

2.4. Itemisation of All Exposure Classes in Terms of Residual Maturity of Up to 1 Year and More than 1 Year

(Article 15f of the Decision regulating disclosures)

	2013		2012	
Exposure class	Short-term (up to 1 year)	Long-term (more than 1 year)	Short-term (up to 1 year)	Long-term (more than 1 year)
Central governments and central banks	339,217	72,989	89,312	114,690
Regional governments or local authorities	970	24,886	1,907	10,301
Public sector entities	231	39,706	64	42,250
Multilateral development banks	0	12,071	1,529	10,986
International organisations	0	7,423	0	7,642
Institutions	681,646	2,066,513	443,173	2,782,670
Corporates	182,459	599,025	169,992	644,945
Past-due items	24,354	69,424	27,438	79,572
Regulatory high-risk exposures	38,346	142	37,618	5,573
Covered bonds	0	2,639	2,028	2,698
Investments in collective investment undertakings	0	0	135	0
Other exposures	208	10,198	2	5,109
Total	1,267,430	2,905,016	773,198	3,706,436

2.5. Past-Due Exposures, Impaired Past-Due Exposures and Value Adjustments for Impairments and Provisioning for Major Economic Sectors

(Article 15g of the Decision regulating disclosures)

2013 Sector	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Financial and insurance activities	10,780	10,780	36,791
Public administration and defence; compulsory social security	525	525	3,728
Manufacturing	55,608	55,590	118,815
Wholesale and retail trade; maintenance and repair of motor vehicles	7,572	7,569	31,298
Transportation and storage	1,463	1,463	13,756
Other	50,081	50,079	59,864
Total	126,029	126,006	264,253

2012 Sector	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Financial and insurance activities	10,783	10,958	52,952
Public administration and defence; compulsory social security	742	739	1,727
Manufacturing	72,638	73,979	83,617
Wholesale and retail trade; maintenance and repair of motor vehicles	9,467	9,665	15,825
Transportation and storage	1,650	1,650	13,234
Other	54,947	56,201	47,426
Total	150,227	153,192	214,780

2.6. Past-Due Exposures, Impaired Past-Due Exposures and Value Adjustments for Impairments and Provisioning for Major Geographical Regions

(Article 15h of the Decision regulating disclosures)

2013 Region	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Slovenia	105,637	105,629	227,268
Other EU members	108	108	1,846
SE Europe (excluding EU members)	20,284	20,269	35,092
Other countries	0	0	48
Total	126,029	126,006	264,253

2012 Region	Past-due exposure	Impaired past-due exposure	Value adjustment for impairments and provisioning
Slovenia	130,287	133,264	190,905
Other EU members	119	119	2,015
SE Europe (excluding EU members)	19,820	19,810	21,823
Other countries	0	0	37
Total	150,227	153,192	214,780

2.7. Illustration of Change in Impairments and Change in Provisions by Type of Assets

(Article 15i of the Decision regulating disclosures)

Change in impairments

	2013			2012		
	Impairments of loans to banks	Impairments of loans to non-banking clients	Total impairments	Impairments of loans to banks	Impairments of loans to non-banking clients	Total impairments
Balance as at 1 Jan	37,174	160,307	197,480	12,475	119,655	132,130
Creation of impairments	48,315	110,816	159,131	43,515	63,696	107,211
Reversal of impairments	(74,843)	(39,273)	(114,116)	(18,816)	(23,044)	(41,860)
Balance as at 31 Dec	10,646	231,850	242,495	37,174	160,307	197,480

Changes in provisions

	2013	2012
	Provisions for off-balance-sheet liabilities	Provisions for off-balance-sheet liabilities
Balance as at 1 Jan	14,486	4,408
Creation of provisions	7,510	18,352
Reversal of provisions	(14,015)	(8,274)
Balance as at 31 Dec	7,981	14,486

Changes in impairments and provisions

	2013			2012		
	Impairments	Provisions	Total	Impairments	Provisions	Total
Balance as at 1 Jan	197,480	14,486	211,966	132,130	4,408	136,538
Increase	159,131	7,510	166,641	107,211	18,352	125,563
Decrease	(114,116)	(14,015)	(128,131)	(41,860)	(8,274)	(50,134)
Balance as at 31 Dec	242,495	7,981	250,476	197,480	14,486	211,966

2.8. Additional Disclosures by Bank Using Standardised Approach

(Article 16 of the Decision regulating disclosures)

Exposure values and exposure values including credit protection effects broken down by credit quality step

	2013		2012	
	Net exposure value	Exposure values including credit protection effects	Net exposure value	Exposure values including credit protection effects
Credit quality step 0	3,660,921	3,684,251	3,982,327	3,996,615
Credit quality step 3	2,443	186	5,349	480
Credit quality step 4	3,090	1,882	3,046	194
Credit quality step 5	73,476	71,557	103,439	101,159
Credit quality step 6	53,200	50,765	66,521	64,368
Credit quality step 7	53,508	39,358	39,629	37,672
Total	3,846,638	3,847,999	4,200,310	4,200,488

The above table includes the following exposure classes: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organisations, institutions and corporates.

2.9. Investments in Equities not Included in Trading Book

(Article 21 of the Decision regulating disclosures)

	31 Dec 2013	31 Dec 2012
Carrying amount	7,363	7,336
Revaluation surplus	0	12

Equities in the amount of EUR 5,188 thousand were acquired from the redemption of receivables. All these securities are quoted on a stock exchange. They are classed as available-for-sale financial assets. They are disclosed at fair value in the accounting records, which is equal to the quoted price of the security on the stock exchange. The remaining equities in the amount of EUR 2,175 thousand have also been classed as available-for-sale financial assets and disclosed at fair value in the accounting records. These securities are not quoted on a stock exchange, and have been obtained through the conversion of bank receivables.

The Bank created EUR 2,531 thousand in impairments in 2013 for investments in equities.

The SID Bank banking group realised gain on sale of equity investments in the amount of EUR 32 thousand in 2013.

At the end of 2013, the SID Bank banking group had no unrealised gains from equity securities.

2.10. Significant Business Relationships

(Article 23c of the Decision regulating disclosures)

No contractual or any other business relationship met the criteria for significant business relationships in 2013.

2.11. Credit Protection

(Article 25 of the Decision regulating disclosures)

The types of credit protection used by SID Bank are defined in the rulebook on credit protection for insurance transactions. The rulebook defines the general categories and principles of credit protection, the criteria for individual types of credit protection, and the operational procedures for establishing, recording, monitoring/valuing and exercising credit protection. The rulebook also sets out the rules for valuing individual types of credit protection, and the procedures involving assets serving as collateral.

The SID Bank banking group classes the following as eligible providers of unfunded credit protection: central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organisations, and legal entities with a high credit rating (credit quality step of at least 2 under the ECAI methodology). The SID Bank banking group does not use credit derivatives to mitigate credit risk.

Assets pledged as collateral are valued at market value at the SID Bank banking group. Assets quoted on a stock exchange are value at the current price. Assets not quoted on a stock exchange are valued on the basis of comparable transactions. Real estate is valued by an independent certified appraiser, the international valuation standards applying. Market values and mortgage lending values are drawn up for real estate. A transaction price obtained in an arm's length transaction no more than one year in the past may also be used.

Throughout the repayment term of an investment the SID Bank banking group monitors the credit rating of the debt and the coverage of the investment by collateral. Should the collateral value decline, the SID Bank banking group acts to establish additional collateral as appropriate.

The amount of indirect credit risk and market risk exposure deriving from credit protection received, together with the actual exposure to the individual client or group of connected clients, may not reach or exceed 10% of the stock of SID Bank's funding. The SID Bank banking group draws up a report on indirect credit risk exposure every three months.

The providers of personal guarantees of greatest significance to the SID Bank banking group are banks, insurance corporations, corporates with a high credit rating (joint surety) and private individuals – creditworthy joint sureties.

In the breakdown of credit protection the largest proportion is that accounted for by commercial real estate collateral, followed by other guarantees of corporates with no rating or a rating of less than A-, fiduciary cession, corporate guarantees with no rating, guarantees of A-rated corporates collateral in the form of participating interests, the SID Bank insurance policy for the account of the Republic of Slovenia, fiduciary transfer of title to real estate, collateral in the form of receivables, bills of exchange, and other credit protection.

Total exposure value covered by personal guarantees or credit derivatives by exposure class

	2013		2012	
Exposure class	Amount	Breakdown, %	Amount	Breakdown, %
Public sector entities	2,707	4.9	3,614	6.8
Institutions	28,745	52.4	31,878	59.9
Corporates	22,097	40.3	17,546	33.0
Past-due items	1,293	2.4	167	0.3
Total	54,841	100.0	53,205	100.0

The above table takes account solely of credit protection that the bank takes into account in the reduction of the capital requirements for credit risk.